STATEMENT OF THE
NATIONAL MILK PRODUCERS FEDERATION
CONCERNING

THE 2002 FARM BILL

TESTIMONY BEFORE THE
U.S. HOUSE OF REPRESENTATIVES

AGRICULTURE COMMITTEE

APRIL 5, 2001

PRESENTED BY
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INTRODUCTION

Good morning, Chairman Combest, Ranking Member Stenholm, and the other members of the House Agriculture Committee.

I am Jerry Kozak, the Chief Executive Officer of the National Milk Producers Federation in Arlington, Virginia. NMPF is the national voice of 55,000 dairy producers, here on Capitol Hill and with government agencies. We develop and carry out policies that advance the well-being of U.S. dairy producers and the cooperatives they collectively own. Cooperatives handle approximately 85% of the U.S. milk supply. Farmer-owned dairy coops also manufacture 61% of the butter, 76% of nonfat dry milk, and 40% of the natural cheese, marketed in the U.S.

Like many of the other witnesses you've heard from these past few months, I would like to spend some time today discussing our perspective on the proper role for the federal government in assisting the domestic dairy industry through the upcoming Farm Bill. Although I realize that the primary area you wish to focus on today is the economic safety net for dairy farmers, our testimony will also deal with more than the just the issue of economic regulation. While that is the specific dairy topic that this committee has most often discussed in recent times, it is our belief that economic policies alone do not hold the key to the future of U.S. dairy producers. I know from many conversations with dairy farmers that they themselves certainly understand that we need a much more comprehensive farm policy covering dairy than what was contained in the 1996 FAIR Act.

And so, while I am happy to answer any questions I can from you regarding the nature of the dairy programs overseen by this committee and USDA, I also want to spend some time reviewing our goals for other programs that should also be featured in the 2002 Farm Bill, and in other policy directives in the Congress. Only by addressing all of these elements – each a part of a larger portfolio – can we truly develop a policy framework that addresses all of the concerns of dairy producers.

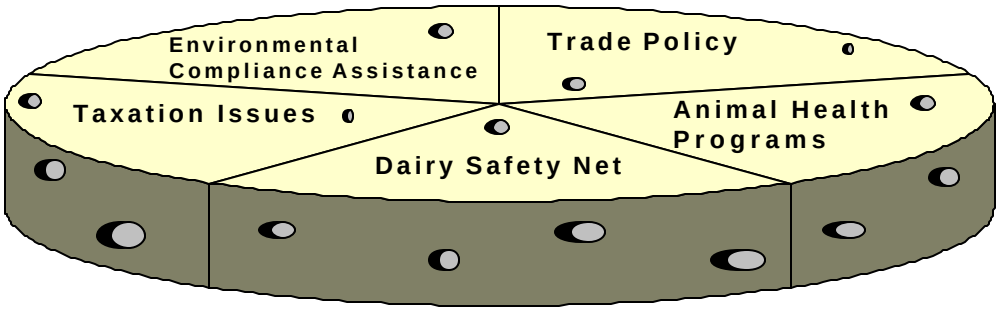
I want to acknowledge that only by listening to dairy producers all across the country can we truly develop a comprehensive policy framework. With that thought in mind, NMPF conducted a thorough grassroots outreach effort last year to obtain input from dairy farmers across the country regarding the future direction of dairy policy. In order to reach out as broadly as possible, this effort – which we called the Dairy Producer Conclave – was joined by the American Farm Bureau Federation, the National Farmers Organization, the National Farmers Union, the National Grange, and the National Council of Farmer Cooperatives.

We formed a national steering committee comprised of the presidents and senior staff of these organizations. Each of these organizations was given the opportunity to send their members to the five regional Conclave listening sessions we sponsored last spring. More than 350 dairy producers, representing 86 separate farm organizations from 42 states, participated in the regional meetings. Once we had received the input from these

farmers, the Steering Committee organizations sat down to create a consensus document based on the feedback we received. The net result of that input is reflected in many of the items I am sharing with you today.

I used the phrase "portfolio" a moment ago, but rather than present our recommendations as a series of individual items, I believe a more apt metaphor – at least for the dairy community – is to think of our recommendations as various wedges of a wheel of cheese. We can slice and dice the cheese wheel according to our whims, but each piece that's removed is part of a larger whole.

I will begin by detailing our recommendations on economic policy (dairy safety net), but then I also want to specifically address the need for programs that deal with other pressing concerns to dairy producers: animal health programs, environmental compliance assistance, trade policy, and taxation issues. These are all slices of that big cheese wheel I just described.



Finally, National Milk Producers Federation understands the need to construct a Farm Bill that is consistent with our current World Trade Organization rules and commitments. The programs NMPF is proposing fit perfectly within our WTO commitments.

We are also committed to working in harmony with other U.S. agricultural sectors, and our proposals do not negatively impact any other agricultural commodity.

Dairy Industry Profile

First, let me include a snapshot of the dairy sector to provide some perspective about the industry – and most importantly, the people who work as dairy producers. Often when we discuss commodity programs we forget that behind each bushel of corn, or tanker of milk, is a farmer whose livelihood depends on, and is reflected by, these products.

There are approximately 83,000 commercial dairy farms in this country. That number, calculated by the American Farm Bureau Federation (AFBF), reflects the total number of dairy operations licensed to sell milk. The USDA uses a more expansive definition of dairy operations: namely, any farm with a milk cow on it, even if those farms don't actually market the milk. So we believe the more conservative AFBF definition is more accurate.

The average herd size of those 83,000 farms is 110 cows. Only seven percent of the total farming operations have more than 200 cows, meaning that the great majority of dairy farms falls into a size range of between 50 and 200 animals. The seven percent of operations with over 200 cows produces 50% of the nation's milk supply; so as is the case with other commodities, dairy production is becoming more concentrated. Nevertheless, another important point to stress is that the great majority – over 95 percent – of these dairy operations are family owned and operated. Contrary to the sometimes popular perception that U.S. livestock operations have become dominated by quote-unquote "corporate" farms, virtually all of America's dairy operations are owned, managed, and worked by families. They may be family partnerships or incorporated family businesses, but these are almost all family-owned farms.

At a farm-level value of $23 billion, dairy is the second-largest farm commodity produced in this country, behind only beef. And obviously, dairy farmers contribute a significant source of beef products, approximately 10%, to the U.S. meat supply. Dairy is also unique in that it is produced commercially in all 50 states, including Alaska and Hawaii. The long-standing and valuable role that milk plays in peoples' diets is the reason behind the ubiquity of dairy farming from Rhode Island to California. Milk is the most valuable farm commodity produced in nine states, and the second most-valuable in an additional ten.

The dairy industry is unique among agricultural commodities because milk is highly perishable, bulky and not easily stored. Dairy farmers must market their production virtually every day, regardless of price. As a result, the dairy industry has generally been subject to a larger degree of government intervention and regulation than most other commodities. This structural aspect of the dairy industry, and its resulting influence on the level of government involvement in the industry, is as much the case at the beginning of the 21st century as it was in the 1920's.

Review of Dairy Policy History

At the present time, the domestic dairy industry is affected by the following specific dairy-related programs legislated by Congress:

- Dairy Price Support Program
- Market Loss Assistance Payments
- Federal Milk Marketing Orders
- Dairy Export Incentive Program
- Dairy Promotion and Research Program

Dairy Price Support Program

The price of milk to dairy producers in the United States has been supported continuously for over 50 years since the enactment of the Agricultural Act of 1949. Initially the law established the support level at between 75 and 90 percent of parity. However, since 1981, the support level has been established by Congress either at specific price levels, or by formula tied to anticipated Commodity Credit Corporation (CCC) dairy product purchases. The current support price of $9.90 per hundredweight for milk containing 3.67 percent milkfat has been in effect since January 1, 1999.

To carry out the price support program, the CCC offers to buy cheese, butter and nonfat dry milk at announced prices, thus providing a floor for dairy product prices. The Secretary of Agriculture establishes the purchase prices for each product to enable plants of average efficiency to process and market products to CCC and pay producers, on average, the announced support price.

In the early 1980's the price support level was above $13.00 per hundredweight. At that level, the program generated milk production above market demand and resulted in CCC purchasing more than 10 percent of U.S. milk production at a cost exceeding $2 billion annually.

Starting in December 1983 the price support level was reduced through a series of $0.50 per hundredweight reductions. In addition to the price support reductions, Congress enacted short-term programs in the mid-80's that provided incentive payments to dairy producers who voluntarily reduced or terminated milk production. To reduce CCC price support costs the Congress instituted an assessment on milk marketed by producers that was paid to the government. The combination of lower prices, incentive payments to reduce production and assessments resulted in lower production and reduced CCC dairy product purchases.

The Federal Agriculture Improvement and Reform Act of 1996 (FAIR) contained provisions to end the Dairy Price Support Program effective December 31, 1999 and establish a recourse loan program for milk effective January 1, 2000. The Act also terminated the authority to assess milk marketed.

When the FAIR Act was being considered dairy producers were optimistic about their future since milk prices were averaging about $3.00 per hundredweight above the support price and dairy products were not being sold to CCC. Unfortunately, the optimism in 1996 fell victim to milk prices that plummeted below the $9.90 per hundredweight support level by the end of 1999 and remained at low levels throughout 2000. The low prices for dairy producers prompted Congress to reconsider the decision to end the Dairy Price Support Program on December 31, 1999 and laws extending the program through 2000 and subsequently through 2001 were enacted.

Market Loss Assistance Payments

On three occasions starting in June 1999 USDA has made market loss assistance payments amounting to almost $1 billion to assist dairy producers facing reduced milk prices. In June 1999, a total of $200 million was paid to dairy producers, with each operation receiving approximately 22.5 cents per hundredweight on milk production in 1997 or 1998, up to 26,000 hundredweight. The second payment made in April 2000 totaled $125 million, with each dairy producer receiving approximately 13.2 cents per hundredweight on milk production in 1997 or 1998, up to 26,000 hundredweight. The third payment made in December 2000 totaled $645 million, with each dairy producer receiving approximately 64.7 cents per hundredweight on milk production in 1997 or 1998, up to 39,000 hundredweight.

Federal Milk Marketing Orders

Federal Milk Marketing Orders are issued and administered by USDA pursuant to authority contained in the Agricultural Marketing Agreement Act of 1937. Milk orders classify milk according to how it is used and establish minimum prices that processors are required to pay producers for milk in each Class. In accordance with provisions in the FAIR Act, Federal milk orders were reformed and consolidated into 11 orders on January 1, 2000.

Milk orders stabilize market conditions, benefit producers and consumers by establishing and maintaining orderly marketing conditions, and assure consumers of adequate supplies of pure and wholesome milk at all times.

Each milk order includes a classified price plan that provides four different classes and prices for milk of different uses. Milk used in fluid products is placed in Class I, the highest priced class. Milk used to produce ice cream, yogurt, butter, cheese, nonfat dry milk, and other manufactured products is placed in lower-priced classes. The orders provide that producers be paid a uniform or average price calculated by combining and averaging class values for all handlers through marketwide pooling provisions.

The terms of an order are developed through public participation in hearings held by USDA prior to issuing an order. The public hearings offer an opportunity for all parties to present information regarding the need for an order and what its provisions should include. USDA analyzes the hearing records and recommends the terms and provisions of milk orders. If two-thirds of the voting producers approve a market order, the Secretary issues the milk marketing order.

A milk market administrator administers each order. Each month the market administrator computes and publishes class and uniform prices as well as other required prices and butterfat differentials. The market administrator also verifies individual handler's reports and payments through an audit program.

The market administrator prepares statistics and information concerning operations under the order, keeps records and books that clearly reflect the transactions provided for in the order, and disseminates this information to the public. The market administrator's staff expenses are paid by an administrative fund derived from assessments on regulated handlers. Most orders also provide for a marketing service payment which covers the expense of providing market information and for the verification of weights, sampling, and testing of milk received from producers who are not members of qualified cooperatives that are performing such services. The cost of these services is borne by the producers.

Dairy Export Incentive Program

The government assists dairy exports through the Dairy Export Incentive Program (DEIP). The program is used to help U.S. dairy products meet competition from subsidizing countries, especially the European Union. Products eligible for DEIP are dry milk powders, butterfat and cheese. The DEIP is currently authorized through December 31, 2002.

DEIP sales are made by private firms. Upon contacting a potential buyer, the prospective exporter submits a bid to USDA requesting a cash bonus that would allow the sale to take place. If accepted by USDA the bonus is paid after the exporter provides evidence that the dairy product has been exported.

Implementation of the GATT trade agreement has had ramifications for the DEIP. The agreement imposes limits on both the quantity and amount of DEIP bonuses by the United States. The U.S. Annual DEIP limits are 21,097 metric tons of butterfat; 68,201 metric tons of nonfat dry milk; 3,030 metric tons of cheese; and 34 metric tons of other dairy products. These numbers are frozen at the current levels until a new round of WTO talks reaches fruition.

Dairy Promotion and Research Program

The Dairy Production Stabilization Act of 1983 (Dairy Act) authorized a national producer program for dairy product promotion, research, and nutrition education to increase human consumption of milk and dairy products and reduce milk surpluses. Under the program promotion and research is conducted to strengthen the dairy industry's position in the marketplace and to maintain and expand domestic and foreign markets and uses for fluid milk products and dairy products produced in the United States.

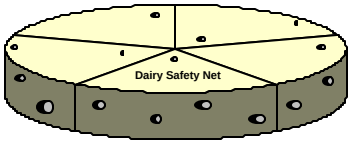
This self-help program is funded by a mandatory 15-cent-per-hundredweight assessment on all milk produced in the contiguous 48 States and marketed commercially by dairy farmers. The Dairy Act provides that dairy producers can direct up to 10 cents per

hundredweight of the assessment for contributions to qualified regional, State, or local dairy product promotion, research, or nutrition education programs.

Dairy checkoff revenue from the 15-cent-per-hundredweight producer assessment was $246 million for 2000.

The Dairy Act required the Secretary of Agriculture to conduct a referendum among dairy farmers by September 30, 1985, to determine if a majority favored continuation of the program. Of the dairy farmers who voted in the August 1985 referendum, nearly 90 percent approved continuation of the program. A second referendum to continue the dairy promotion program was held in August 1993. Approximately 71 percent of the dairy farmers who voted in the referendum favored continuation of the program.

In March 1994, the Dairy Board approved the creation of Dairy Management, Inc. (DMI). This is a joint undertaking with the United Dairy Industry Association (UDIA). UDIA is a federation of State and regional generic producer promotion organizations. DMI's purpose is to provide better coordination of producer promotion funds by having a joint plan, joint budget, and joint execution.



POLICY RECOMMENDATIONS

Economic Policy

As I begin to state our industry's recommendations concerning the future of dairy economic policy, let me state unequivocally that NMPF supports the maintenance of the Federal Milk Marketing Order program. Milk orders stabilize market conditions, benefit producers and consumers by establishing and maintaining orderly marketing conditions, and assure consumers of adequate supplies of pure and wholesome fresh milk at all times.

Major changes in the Federal Order system were mandated by the 1996 FAIR act, and we are still adjusting, through the administrative process, to the changes made by the current farm bill. **Our strong recommendation is that no further changes in Federal Orders be made by Congress in the 2002 Farm Bill**.

Under the World Trade Organization rules, our Federal Milk Marketing Orders are not categorized as a subsidy in any form. Thus, they are not only consistent with the WTO, but also do not belong in any of the colored "box" categories.

Dairy Safety Net

Now, let me move on to what we like to call the dairy safety net. We acknowledge that dairy farmers should not rely on the government to be the primary market for their products. The commercial marketplace is the best arbiter of how dairy goods should be marketed. However, as is the case with producers of other farm commodities, we believe the government has a role in providing an economic safety net for dairy producers.

The safety net should meet the following goals:

- Protect viable dairy farm operations from short-term disaster;
- Maintain a level of income sufficient to satisfy demand for milk;
- Not discriminate among regions or between farm operations of different sizes;
- Enable supply to adjust to demand.

Keeping in mind our goals, the plan we are recommending represents a modest investment by the federal government – and this Congress – in a program that will return tangible benefits to dairy farmers at a low cost to taxpayers. Given the complexities of the industry, I want to preface our recommendation by stating that this committee may subsequently want to further consider the issue of the dairy safety net following all of the testimony you receive as part of this hearing process. NMPF's Milk Pricing Task Force stands ready to further amend our comments prior to markup of Farm Bill legislation, if necessary – particularly in light of any feedback from this committee.

At the present time, however, the National Milk Producers Federation recommends the enactment of a dairy safety net program with the following features:

1. Extend the dairy price support purchase program, whose legislative authority expires on December 31, 2001, at the current support price of $9.90 per hundredweight.

2. Maintain the current CCC purchase price for nonfat dry milk of approximately $1.00 per pound (no butter-powder "tilt").

3. Extend the Dairy Export Incentive Program (DEIP), whose legislative authority expires on December 31, 2002.

4. Establish a supplemental payment program through federal and state milk marketing orders to ensure that revenues received by dairy producers from sales of Class III and Class IV milk are no less than $11.08 per hundredweight.

The following economic analysis examines the impacts and the costs and benefits of this dairy policy recommendation, both in total as well as its individual components. The analysis was conducted by the staff of the National Milk Producers Federation utilizing standard economic analytic techniques and methods.

Overall Program Recommendation

Appendix 1 provides an overview of the dairy situation on a calendar year basis through 2008, under the assumed enactment and implementation of the NMPF dairy safety net program recommendation described above.

The Class III and Class IV supplemental payment component of this program would authorize the use of CCC funds to augment revenue in federal and state milk marketing order pools to ensure that Class III and Class IV revenues per hundredweight are not less than $11.08. This is the level that the Federal milk order announced price for Class III milk at 3.5 percent butterfat test averaged during the 20-month period February 1999 through September 2000. This price represents a careful balance between the competing objectives of ensuring adequate income protection for producers whose milk is used largely to produce manufactured dairy products while also ensuring that production in such regions is not unduly stimulated.

During any month that federal order Class III or Class IV, or equivalent state order prices are less than $11.08 per hundredweight, the CCC would make a payment into the relevant pools in an amount equal to the difference between $11.08 and the Class III price times the volume of Class III milk in the pool and/or, as appropriate, the Class IV price times the volume of Class IV milk in the pool. This would ensure that payments producers ultimately receive for the portion of their milk used in Class III and Class IV do not fall below $11.08 per hundredweight, for milk at 3.5 percent butterfat test. Producers who are not paid through a federal or state order pool would receive equivalent income supplements in the form of direct payments. In all cases, producers would receive the supplemented blend price on the volume of milk they market that month, up to the volume of milk they marketed the same month the previous year. Producers would receive the blend price calculated with no supplementation on the volume of milk they market for the month, if any, above the volume they marketed the same month the previous year. *This program is truly counter-cyclical in nature in that producers would receive no payments until Class III and IV prices have fallen to $11.08 per hundredweight.*

The key results of this analysis are the following:

1. The price dairy farmers receive for all milk and cream sold to plants and dealers (the "all-milk" price), would average $12.86 per hundredweight during the 2002-2008 period. The all-milk price includes premiums received above federal and state order minimum prices, but does not include supplemental payments.

2. Over this same period, dairy farmers would receive Class III supplemental payments averaging $1.14 per cwt. and Class IV supplemental payments averaging $0.05 per cwt.

3. The total cost to the government of this program would amount to $10.5 billion over the seven-year period. This would consist of $4.1 billion for CCC purchases, $77 million for DEIP program bonus payments, $6.3 billion for Class III supplemental payments and $56 million for Class IV supplemental payments. These costs are shown in Table 1 (below) for individual years during the period 2002-2008.

4. Dairy producer income would total $167.7 billion, added together over the seven years. This includes $161.3 billion of total revenues received from the market and $6.3 billion, equivalent to 3.8 percent of total revenues, received in the form of Class III and Class IV supplemental payments.

5. Dairy program costs are increased considerably as a result of increased imports of milk protein concentrates (MPC) and casein and caseinates. Unlike most other dairy products imported into the United States, MPC and casein can freely enter

the U.S. at insignificant tariff levels and subject to no tariff-rate quotas. These unrestricted imports of concentrated milk protein products displace an estimated average of 612 million pounds of less concentrated nonfat dry milk from domestic markets over the 2002-08 period.

Table 1

TOTAL GOVERNMENT OUTLAYS UNDER DAIRY PROGRAM RECOMMENDED BY NATIONAL MILK PRODUCERS FEDERATION

		2002	2003	2004	2005	2006	2007	2008	2002-08
Net Government Outlays:									Sums
CCC Purchases	mil. $	$481	$527	$567	$599	$623	$642	$643	$4,081
DEIP Bonus Payments	mil. $	$11.3	$11.2	$11.1	$11.0	$10.8	$10.7	$10.7	$76.8
Supplementation payments:									
Class III	mil. $	$506	$591	$741	$893	$1,048	$1,226	$1,277	$6,281
Class IV	mil. $	$4.0	$5.3	$6.6	$8.0	$9.4	$10.7	$12.1	$56.2
Total Net Outlays	mil. $	**$1,001**	**$1,134**	**$1,325**	**$1,512**	**$1,692**	**$1,889**	**$1,943**	**$10,496**

Our conclusion is that in order to establish a dairy safety net in the coming years, Congress should extend the dairy price support program at a level of $9.90/hundredweight for the 2002-2008 period, without making any adjustments in the "tilt" of the current butter/powder purchase prices.

Congress should also authorize and fund a supplemental payment program for Class III and Class IV milk for the purpose of creating equity among producers. This program will benefit all producers, but particularly those who derive a substantial portion of their income from milk used to produce manufactured dairy products. When necessary, the payments should be made to ensure that returns from Class III and Class IV milk are at least $11.08 per hundredweight.

Costs and Benefits of Extending the Dairy Price Support Program

The dairy price support program has proven to be an effective means of stabilizing dairy producer prices and incomes at relatively low cost to the government. Appendices 2 and 3 provide an analysis of the impact of terminating the dairy price support program. Appendix 2 provides an overview of the dairy situation on a calendar year basis through 2008, under the assumed termination of the dairy price support program, beginning in 2002, and in the assumed absence of any supplemental payments. Appendix 3 compares this scenario with the previous analysis of extending the dairy price support program, but without enacting any supplemental payments. This allows analysis of the separate impact of terminating the dairy price support program. Extension of the DEIP is assumed in both scenarios.

The key results of this analysis are the following:

1. Terminating the dairy price support program would reduce dairy producer income by $5.6 billion over the 2002-2008 period. Producer income would drop by $1.8 billion in 2002 alone, the first year during which the program is assumed to terminate. In the later years, the income effect would be lower, as market forces eventually reestablished a market equilibrium, but the income impact would be negative in all seven years. The reduced income would result primarily from lower all-milk prices, averaging $.33 per cwt. less over the period, as well as from an average reduction in milk marketed of 1.8 billion pounds. The largest annual reduction in the all-milk price would be $.94 per cwt. in 2002, the year the program would terminate.

2. Terminating the dairy price support program would reduce government costs by $3.6 billion over the 2002-2008 period. The savings would vary between about $450 million and $550 million per year over the period, while producer income would drop by as much as $1.8 billion annually during that period.

3. The overall benefit-cost[1] ratio of extending the dairy price support program would therefore be 1.55 to one over the seven-year period. Among individual years, the benefit-cost ratio would be highest, 3.88 to one, in 2002.

This analysis takes into consideration the operation of the dairy recourse loan program, as provided in current legislation to become effective upon termination of the dairy price support program. The program provides low-cost commodity loans to approved dairy processors, who pledge dairy product inventories as collateral against the loans. Loans must be repaid, and collateral redeemed, by September 30 each year. Accordingly, the impact of this program on government costs will be small when considered on an annual basis. Similarly, its impact on market prices on an annual basis will be slight since the program does not provide a mechanism for removing excessive product inventories from domestic commercial markets on a long-term basis.

Costs and Benefits of Maintaining the Current Dairy Price Support Purchase Price For Nonfat Dry Milk

Assuming extension of the dairy price support program, there remains a critical issue relative to the administration of the program that affects dairy producer income in a major way. In recent years, USDA has purchased substantial amounts of nonfat dry milk but no butter under the dairy price support program. This situation usually prompts the Department to adjust the relative CCC purchase prices for butter and nonfat dry milk, also known as making a butter-powder "tilt," in this case by lowering the CCC purchase price for nonfat dry milk and raising the corresponding butter purchase price to keep the combined support equal to $9.90 per cwt. Prior to 2000, such an administrative adjustment would have been a relatively minor affair for the industry. For example, a

[1] "Benefit-cost ratio" is here defined as the ratio of the estimated gains in U.S. dairy producer income that result from adoption of a program to the costs in the form of additional government outlays that the adopted program are estimated to require.

decade ago, when USDA aggressively dropped the butter purchase price by about half over a period of about four years to address the milkfat surplus situation that affected the dairy industry at that time, the overall impact on dairy producer income was slight.

However, a major change took place in 2000, when the new Federal order reform milk price formulas effectively changed the way the price support and federal order programs interacted. The new formulas include: a Class IV price computed directly from butter and NFDM prices; a Class II price linked directly to the Class IV price; and Class I prices driven by the higher of Class III and Class IV. With Class IV prices generally driving all but Class III prices, the majority of dairy producer income during the analysis period is affected directly by butter market prices and the CCC purchase price for NFDM.

In this environment, dropping the CCC purchase price for NFDM would quickly reduce Class IV, Class II and Class I prices by about the same amount, and the all-milk price would drop by about 60 percent of that amount.

Appendices 4 and 5 provide an analysis of the impact of a butter-powder tilt, assuming extension of the dairy price support program. Appendix 4 provides an overview of the dairy situation on a calendar year basis through 2008, assuming USDA reduces the CCC purchase price for nonfat dry milk by $.05 per pound, beginning in 2002, and in the assumed absence of any supplemental payments. Appendix 5 compares this scenario with the previous analysis of extending the dairy price support program, but without enacting any supplemental payments. This allows analysis of the separate impact of a butter-powder tilt under the dairy price support program. Extension of the DEIP is assumed in both scenarios.

The key results of this analysis are the following:

1. Reducing the CCC purchase price for nonfat dry milk by $0.05 would reduce dairy producer income by $2.3 billion over the 2002-2008 period. Producer income would drop by $416 million in 2002 alone, the year during which the tilt is assumed to be first made. In the later years, the income effect would be lower, as market forces eventually reestablished a market equilibrium, but the income impact would be negative in all seven years. The reduced income would result primarily from lower all-milk prices, averaging $.16 per cwt. less over the period, as well as from a moderate reduction in milk marketed. The largest annual reduction in the all-milk price would be $.24 per cwt. in 2002.

2. Reducing the CCC purchase price for nonfat dry milk by $0.05 would reduce government costs by $144 million over the 2002-2008 period. The savings would vary between $16 million and $22 million per year over the period, but producer income would drop by a total of $2.3 billion, including at last $400 million in the first year alone.

3. The overall benefit-cost ratio of maintaining the CCC purchase price for nonfat dry milk at approximately $1.00 per pound would therefore be 16 to one over the

seven-year period. For individual years, the benefit-cost ratio would range from 26 to one in 2002 to about 12 to one in 2008.

This analysis demonstrates that the CCC would not purchase significantly less nonfat dry milk at a five-cent per pound lower price. We believe that even a larger price reduction would not unleash significant commercial demand for U.S. nonfat dry milk. On the one hand, additional U.S. commercial exports will continue to be hindered by our competitors use of direct export subsidies or monopoly powers. Likewise, higher demand for U.S.-produced nonfat dry milk on the domestic market is also unlikely to result from a lower CCC purchase price because of the ability of foreign exporters to subsidize their milk protein products in a manner that undercuts U.S. prices.

To summarize, reducing the CCC purchase price for nonfat dry milk would not significantly reduce the quantity of nonfat dry milk purchased under the dairy price support program. This is because those purchases are largely due to displacement of domestically-produced nonfat dry milk by unrestricted imports of milk protein concentrate and casein, rather than through production decisions by U.S. producers. Butterfat and nonfat milk solids, including milk proteins, are produced fairly fixed proportions by dairy cows. Throughout the forecast period, U.S. milk producers will produce no more milk than is necessary to supply the commercial market's needs for butterfat. They will therefore produce a corresponding quantity of nonfat milk solids that will be relatively unaffected by the price of milk solids.

The most effective means of reducing CCC purchases of nonfat dry milk under the dairy price support program is to limit imports of milk protein concentrate and casein into the U.S., as most other dairy product imports are limited. This option is analyzed on pages 28 and 29.

Costs and Benefits of Class III and Class IV Supplemental Payments

The basic rationale for enacting a Class III and Class IV supplemental payment component of a dairy safety net is producer equity. As a result of federal milk marketing order reform implemented in 2000, prices for milk utilized in manufacturing dairy products can diverge significantly, and for prolonged periods, both among manufactured products and between manufactured and fresh dairy products. In particular, the price of milk used to produce cheese, or the Class III price, has fallen significantly below prices for milk in other utilization classes, and will likely continue to lag in the future. Since dairy farmers are paid a weighted-average price based on how their milk is utilized in the production of dairy products, dairy farmers in regions where a high proportion of milk is used to produce Class III products, primarily cheese, are at risk of suffering substantial income erosion.

Appendices 6 and 7 provide an analysis of the impact of enacting a Class III and Class IV supplemental payment program, beginning in 2002. Appendix 6 provides an overview of the dairy situation on a calendar year basis through 2008, under the assumed extension of the dairy price support program, but without implementation any supplemental payments. Appendix 7 compares this scenario with the previous analysis of enacting the NMPF recommended program. This allows analysis of the separate impact of supplemental payments, under the assumed extension of the dairy price support program.

The National Milk Producers Federation does not support the use of supplemental payments as a substitute for the dairy price support program. The cost to the government to provide income support to dairy farmers through direct payments at a level equivalent to the income support currently provided by the dairy price support program would be prohibitive.

Furthermore, the Class III and Class IV supplemental payments described above as a supplement to the support program are not designed to augment all dairy producer income but have the more modest aim of addressing equity issues for that portion of producers' milk used to produce manufactured dairy products. For example, we estimate that, if the price support program were terminated and Class III and Class IV supplemental payments enacted in its stead, producer income would drop by a total of $2.9 billion and government costs would increase by a total of $825 million over the next seven years.

The key results of this analysis are the following:

1. Enacting a Class III and Class IV supplemental payment program would increase dairy producer income by $5.4 billion over the 2002-2008 period.

2. Enacting a Class III and Class IV supplemental payment program would increase government costs by $6.8 billion over the 2002-2008 period. The increase in government costs would slightly exceed the increase in dairy producer income

because the payments would result in some increased milk production. This would increase CCC purchase costs and reduce revenues received from the market.

3. The benefit-cost ratio of enacting a Class III and Class IV supplemental payment program would therefore be .79 to one for the industry as a whole. However, this program would improve producer equity considerably. In the absence of the program, Class III prices would average $10.12 per cwt. over the 2002-08 period, compared with an average of $12.92 per cwt. for Class IV prices over the same period, a $2.80 per cwt. difference. With the program, effective Class III prices, including supplemental payments, would average $11.08 per cwt. over the period, compared with an average of $12.94 per cwt. for effective Class IV prices over the same period, a $1.86 per cwt. difference.

Summary of the Total Impact of the Dairy Safety Net on U.S.WTO Commitments

Both the Dairy Price Support Program and the Class III and Class IV Supplemental Payments would be classified in the WTO's Amber box.

Within the World Trade Organization, the total aggregate measure of support (AMS) is made up of the sum of the AMSs for individual commodities, plus the AMS for sector-wide Amber box support. The AMS for the dairy sector averages nearly $4.5 billion per year – the biggest for any commodity sector. The U.S. notifies this level regardless of the level of actual outlays from the government.

The dairy AMS is calculated by taking the difference between the government support price and the external reference price and multiplying that difference by eligible milk production. The support price is the legislative price for the year in question, and the external reference price is the average world price for the 1986-88 base period. Eligible milk production is the total production for the year in question.

Since our proposals do not change the "legislative price," higher AMS numbers will come from additional dairy production. **We have estimated that in the most expensive year of our plan, dairy's contribution to the U.S. Amber box will total $6.3 billion. This amount represents an additional $1.8 billion to our current average U.S. notification of $4.5 billion for the Amber box**.

The U.S. budgetary limit under the Amber Box is $19.1 billion for specific commodities. The United States has plenty of latitude to operate under its non-product specific domestic support, which does not count against our WTO limit (Market Loss Assistance Payments). Except for sugar and peanuts, other commodities have chosen Green and Blue box programs as their main source of government support. If that is the case, our small increase in what the U.S. notifies under the Amber box should have no impact on U.S. WTO commitments.

Impact of Other Commodity and/or Livestock Programs on the Dairy Sector

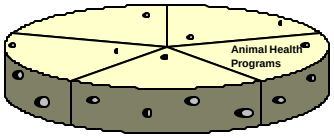
Feed represents a significant portion of the cost of producing milk. In 1999, total feed costs constituted 53 percent of total cash costs and 41 percent of the total economic costs of U.S. milk production, according to USDA's Economic Research Service. Of these percentages, concentrate costs represented 29 percent and 22 percent, respectively, of total cash costs and total economic costs of producing milk, with the remainder consisting mostly of the cost of hay and silage.

Concentrate includes grains, such as corn and soybeans, and is the dairy feed item that is most sensitive to changes in grain prices. For example, based on USDA farm cost surveys, a ten-cent per bushel increase in the price of corn would have increased the total cash costs of U.S. milk production by six-tenths of one percent in 1999. Similarly, a ten-cent increase in the price of soybeans would have had a corresponding cash cost impact of one-tenth of a percent, and a one dollar per ton increase in the price of hay would have similarly increased cash costs by one and a half percent.

These figures clearly demonstrate the sensitivity of milk production costs to changes in grain prices. However, the National Milk Producers Federation takes no policy positions, at this time, with respect to federal farm programs that specifically affect grain prices provided that they do not affect dairy's share of the "Amber box". Indeed, there is a general recognition, including recognition by NMPF, that the United States must respect its Uruguay Round commitments, including its commitment to limit trade-distorting domestic support measures in the Amber Box to its current, and for the foreseeable future, limit of $19.1 billion.

U.S. government support of domestic producers, which had declined dramatically in the early 1990's, began to increase sharply in 1998 because of low commodity prices. U.S. Amber Box support, which had declined from about $25 billion annually in the period 1986-88 to a little more than $6 billion in the period 1995-97, has been on the rise again. As stated before, U.S. Amber Box spending on dairy is in the range of $4.5 billion annually. The amount of Amber Box support under a price support scheme is determined by the value of an artificial calculation, not by government outlays.

The National Milk Producers Federation recommends that Congress recognize our dairy safety net program as an integral part of the U.S. Amber Box. In addition, we object to expansion in other commodity and/or livestock programs that would limit the U.S. Amber Box spending on dairy.



ANIMAL HEALTH PROGRAMS

Mr. Chairman, animal health concerns have been splashed all across the news in recent months, all around the world. We have been witnessing the catastrophic implosion of the livestock industry in the United Kingdom, and elsewhere, because of threats such as BSE and Foot and Mouth disease. The inability to prevent and control such diseases has an impact on consumer behavior and economic development.

Although BSE and FMD are making the headlines because of their impact in other countries, I would first like to begin by reviewing the need for funding to control and ultimately eradicate another serious concern to the domestic dairy producer sector: Johne's disease.

Johne's Disease Control Program

Johne's Disease is an infectious disorder of the intestinal tract of cattle and other ruminant animals. Although it is generally contracted when a calf is young, it doesn't manifest itself clinically until that animal is older, at which time it begins to lose weight, and its milk production drops rapidly. Johne's is not a threat to human health, but just like Foot and Mouth disease, it is a major concern to dairy farmers who have to deal with its economic consequences.

This disease, which has no effective cure and a vaccine of limited efficacy, costs the U.S. dairy industry at least $200 million annually in lost production, and also reduced cull cow prices. Government studies show that Johne's disease is present in at least 20% of herds across the country, large and small.

To their credit, a handful of states have already undertaken programs that educate dairy producers about the disease, and how to establish a biosecurity protocol so that its spread is reduced and the disease is controlled. However, we believe that the time has come to be much more proactive about the illness. It is not a concern to the public health, because the bacterium causing Johne's is not zoonotic. But it is a definite threat to the economic health of the dairy industry, and thus we are asking for a multiyear program that will help control the problem.

The proposal we are submitting would help fund a national voluntary program, under which the cost of testing a farmer's herd for Johne's would largely be underwritten by federal money and administered by the USDA through the states. The program would also provide funds to indemnify producers against the economic loss of animals that test positive. We propose that animals found to be infected with Johne's be sent to rendering plants, as opposed to meatpacking facilities. *This will be done to avoid any disruptions to the beef cattle market, and to avoid any perception issues with animals testing positive for Johne's and, subsequently, entering the food supply.*

This program was developed in consultation with leading animal agriculture and veterinary groups, and represents our best opportunity to provide voluntary incentives to control the disorder. The USDA has established precedents for this program through its brucellosis, and bovine tuberculosis, control programs. And both have been remarkably successful – to the point where brucellosis has been eradicated, and hopefully bovine TB soon will be. Thus, we think it's time to address another serious animal health concern with this effort. Prevention is the only way for us to deal with these issues and avoid the calamity of overlooking the basic foundations necessary to protect our livestock.

The cost of the program over 7 years is estimated to be $1.3 billion, or approximately $191 million per year. This program would be available to both dairy and beef cattle producers.

I am attaching with this testimony a detailed description of this program as we are proposing it. I would also like to mention it has been endorsed by the following groups: American Farm Bureau Federation, the Holstein Association, the Dairy Herd Improvement Association, the Western States Dairy Producers Trade Association, the National Council of Farmer Cooperatives, and the California Johne's Advisory Committee.

A more detailed summary of the Johne's disease program is attached as Appendix 8.

In addition to making funding available for this concern, we are also asking this committee to authorize funding for several other animal health-related items that are crucial to the biosecurity of the nation's dairy herds. More detailed descriptions of these efforts, including cost projections, are attached as Appendices 9 through 12 at the end of my written testimony. To summarize, these projects include:

- Consolidated new National Animal Health Research and Laboratory Facilities for USDA. We have an urgent need to upgrade the National Animal Disease Center (NADC), National Veterinary Services Laboratory (NVSL) and Center For Veterinary Biologics (CVB) in Ames, Iowa. Given the many challenges facing animal agriculture today, including the widespread concern over BSE and Foot and Mouth disease, we need to fully fund the USDA's request for an upgrade in research facilities**. The current estimate for completion of the USDA Master Plan is approximately $439 Million. This does not include any provision for providing updated equipment**. (Appendix 9)

- Continued funding for the USDA Bovine Tuberculosis Emergency Eradication Program. We must continue support for USDA/APHIS to enhance the Bovine Tuberculosis Eradication Program and achieve eradication by 2003. We must also provide adequate line item funding for the Bovine Tuberculosis Eradication Program under the USDA/APHIS Veterinary Service Budget. **The expected cost is $12.0 million per year over the next two budget cycles.** (Appendix 10)

- We need to implement a National Animal Health Emergency Management System (NAHEMS) through involvement of all partners including USDA (APHIS, FSIS, ARS, USDA Emergency Coordinator and International Services), FDA (CFSAN and CVM), the States, industry, and veterinarians. The Secretary of Agriculture should work with Congress to secure an adequate budget for APHIS and ARS foreign animal disease programs. Greater funding for international surveillance and import inspection of agriculture commodities entering the U.S. from areas of the world impacted by Foot and Mouth disease and other foreign animal diseases is necessary. This important national effort needs to be adequately supported through the NAHEMS budget line item and must go forward without delay. **The cost to effectuate the necessary increases in programming will require $10.0 million per year increase to APHIS/VS budget for Emergency Management Systems with no less than $2.0 million allocated to International Services.** (Appendix 11)

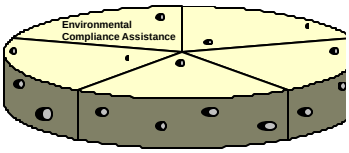
- A Dairy Quality Herd Management and Animal Health program. This would be achieved by providing expanded research funding to Agricultural Research Service/USDA to develop demonstration farm research projects that will support the introduction of Dairy Quality Management Programs, integrating best management practices which are cost effective for producers. We should also provide expanded extension support for the Cooperative State Research, Education and Extension Service/USDA to develop and fund grant proposals to universities and industry that will develop the education, training and risk-assessment expertise required to implement such dairy quality management programs on the farm. **The cost is estimated to approximate $2.0 million per year, to be equally divided between ARS and CSREES.** (Appendix 12)

Again, given the huge focus on the farm-level aspect of food safety, we need more assistance from the government to make certain our animal health research and education efforts are the best they can be. It is readily apparent that the time has come to reinvest in programs that will benefit and protect dairy producers, processors and consumers alike.

Let me close with a word about whether these animal health programs are World Trade Organization-compliant. Under WTO rules for farmer payments, Green programs, which are not subject to limits or reduction in the WTO, have to conform with the following basic criteria:

- the support must be provided through a government program and not a transfer from consumer;
- the support must not have the effect of providing price support to producers.

Based on these criteria, all of NMPF proposed animal health and environmental programs would be classified as Green box programs by the World Trade Organization.



ENVIRONMENTAL COMPLIANCE ASSISTANCE

This committee should also be well aware of the current and potential financial impact on producers of the new animal feeding strategy released in the past two years by EPA and USDA. The dairy industry, like many sectors of production agriculture, is deeply concerned about the ability of dairy farmers to comply with the regulatory approaches contained in the unified Animal Feeding Operation (AFO) strategy.

Let me start out by saying that dairy farmers are committed to using natural resources wisely. Cows themselves are terrific recycling machines. After eating a largely plant-based diet, their manure can be and is used as a source of the nutrients the cows themselves didn't use, including nitrogen and phosphorus. Both of these elements are important for the growth of crops, and of course, those crops end up becoming feed for cattle, and the cycle continues.

There are times, in some environments, where the balance of this cycle is upended – hence, we recognize the need for regulations regarding animal nutrient management. Given the high priority the EPA and USDA have placed on implementing the unified AFO strategy, we believe this Congress should also place a priority on assisting dairy farmers, and other livestock producers, in complying with these new environmental initiatives. It is our belief that everyone in the community is a beneficiary of these initiatives, and as such we see an appropriate role for the government to provide both financial and technical assistance in helping farmers implement the regulations.

We support environmental regulations based on sound science, but we can't go out of business seeking to comply with often complex regulatory requirements. If allowed to continue, the regulatory pressure placed on farms of all sizes may actually hasten the consolidation of smaller farms into larger operations – leading to yet more CAFOs, and compounding the perceived problem the regulations are intending to control.

One positive element we can point to already in the assistance department is the sharing of a USDA-NRCS employee with NMPF to help develop a dairy-specific manual of various environmental best management practices. This tool will help to educate both producers and regulatory officials regarding dairy farm practices. When coupled with educational seminars for producers and their advisors to assist in explaining the pending regulatory changes, the manual will greatly help our dairy farmers. . . but more is needed.

EQIP Funding

While there are many initiatives to increase environmental requirements for producers, there is essentially only one Farm Bill Program to assist them in meeting these expectations. The primary federal program available to provide financial assistance to producers is USDA's Environmental Quality Incentives Program (EQIP).

Created by the 1996 Farm Bill, EQIP is a conservation program that provides cost sharing and technical assistance to producers for voluntary environmental improvements. Half of the EQIP funding is available for livestock producers, and the other half for crop producers. To be eligible for EQIP, producers must submit NRCS-approved conservation plans. State technical committees work with local work groups to identify priority areas within states and also significant statewide natural resource concerns that can receive EQIP monies, with the intent of maximizing environmental benefits per dollar expended. EQIP contracts last from five to ten years and can provide a maximum of 75% of the total cost of the project to the producer, not to exceed $10,000/year or $50,000/contract.

While EQIP is a valuable program for producers, it has certain limitations. A significant limitation of EQIP is the lack of adequate funding for this program. While the program was written to be funded at $200 million per year, it has been repeatedly under-funded by Congress. Even when fully funded, only a fraction of those facilities that apply for assistance receive approval. Another limitation is that larger facilities cannot use EQIP monies for the construction of manure storage facilities, when this is the often the most costly environmental investment that producers face. In addition, farms located outside of identified priority areas are not likely to be approved for EQIP contracts.

We believe that EQIP funding should be increased and restrictions removed so that more producers can participate in this program, and also that USDA should produce a web-based resource to make producers aware of available funds to help offset environmental investments from a variety of state and federal sources, including EQIP.

USDA-NRCS estimates that the total cost for AFOs to implement Comprehensive Nutrient Management Plans (CNMPs) will be $13 billion. While EPA estimates that its proposed CAFO Rule could cost producers almost $1 billion annually, we believe this number is most likely underestimated, due to some of the underlying assumptions. **For these reasons, we are asking for the EQIP Program to be funded at $1.25 billion annually.**

A more detailed summary of our rationale for support of the EQIP program is attached as Appendix 13.

We also want to express NMPF's support for a provision mentioned in the American Farm Bureau Federation testimony before this committee on Feb. 28, 2001. We strongly support the concept of the Environmental Incentive Payments suggested by the Farm Bureau. This concept would allow dairy farmers to create a environmentally-beneficial project on their farms, with assistance from the NRCS in developing the projects. This type of concept represents win-win thinking similar to how the very successful Conservation Reserve Program has functioned during the past 15 years.

Technical Assistance Funding

In addition to the financial assistance needed to adopt certain environmental practices, producers also need to have reliable technical assistance available to them. The USDA Natural Resources Conservation Service (NRCS) is the primary means of technical conservation assistance for producers. NRCS faces both budget and staff limitations that limit the number of producers that can receive technical assistance.

The Unified National Strategy for Animal Feeding Operations (AFOs) establishes a performance expectation for all Animal Feeding Operations (AFOs) to develop Comprehensive Nutrient Management Plans (CNMPs) by 2009. NRCS estimates that 272,000 AFOs will require technical assistance to develop CNMPs. NRCS currently has the capacity to do only 8,000-9,000 plans each year. It is imperative that NRCS have the resources necessary to assist producers.

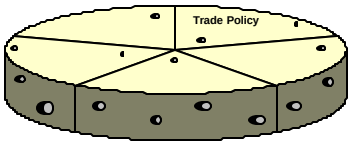
Therefore, NRCS funding should be increased in order to provide adequate technical assistance to producers. Over the next 10 years, dairy producers will spend $5.1 billion to develop and fully implement CNMPs. The technical assistance alone needed to comply with this regulation accounts for $1.3 billion of this total over the ten year period. **Therefore, we urge Congress to provide $130 million annually to NRCS, starting in FY 2002 and running through the authorization period of the 2002 Farm Bill, to assist dairy producers in developing the technical assistance relevant to CNMPs.**

A more detailed summary of our support for more research and technical assistance is attached as Appendix 14.

As I did with the previous section on Animal Health, let me close with a word about whether these environmental programs are World Trade Organization-compliant. Under WTO rules for farmer payments, Green programs, which are not subject to limits or reduction in the WTO, have to conform with the following basic criteria:

- the support must be provided through a government program and not as a transfer from the consumer;
- the support must not have the effect of providing price support to producers.

Based on these criteria, all of NMPF proposed environmental programs would be classified as Green box programs by the World Trade Organization.



TRADE POLICY

Trade Promotion Authority

Trade policy is now playing, and will continue to play, a critical role in determining U.S. dairy farmers' income. Whether it is through expanding exports, or preventing unfair competition from subsidized imports, Congress should be involved in carefully reviewing future trade agreements as well as providing our negotiators with the necessary resources to negotiate as well as monitor agreements. **Congress should grant Trade Promotion Authority to the President, if due consideration is given to the economic impact of such agreements on the dairy sector. However, Trade Promotion Authority should not be given as a blank check to promote trade agreements based purely on "national security" or political pay outs.**

As stated previously, we agree that our programs must be compatible with the WTO. However, the size and importance of the U.S. dairy industry makes it an ideal target for attacks from competitors around the world. Thus, it is imperative that we defend our domestic programs whether there are subsidies involved or not. Also, we must maintain and support our programs regardless of their categorization under the Amber, Blue, Green boxes. **Congress should not support a WTO agreement that places our domestic support programs for producers at a disadvantage compared with domestic support for producers in other exporting countries.**

Trade Agreement Monitoring Program

Monitoring agreements is as important as the construction of the agreement itself. Unfortunately, we often find ourselves in a situation in which other governments are not complying with their commitments and it is the U.S. industry which must bear the burden and cost of first establishing a "case" against other WTO members. **Congress should enact a Trade Agreement Monitoring Program that would provide additional funding in the level of $20 million to each the Foreign Agricultural Service of the USDA and the office of the U.S. Trade Representative to enhance their ability to monitor compliance with trade agreements.**

Dairy Import Policy

Dairy product import quotas initially imposed under the authority of Section 22 of the Agricultural Adjustment Acts of 1933 and 1935 were designed to prevent imports from undermining the dairy price support program. Absent import restrictions, U.S. purchases of dairy products would have the effect of supporting international product prices and become impossibly costly. Implementation of the GATT and NAFTA trade agreements has had important ramifications for the dairy industry. All quotas have been converted to tariff-rate quotas, for which the tariffs have been reduced over time. The GATT and

NAFTA agreements also include minimum access requirements which are allowing more dairy products to enter the United States.

Trade Ambassador Robert Zoellick has stated that "expanded trade – imports as well as exports – improves the well being of Americans." We do agree with Ambassador Zoellick that imports may be important, but only to the extent that our exports have the same opportunities as those imports have coming into U.S. markets. Unilaterally opening our markets will not necessarily improve the economic well-being of American dairy farmers. Unfortunately, we see an example of this with surging imports of milk protein products, especially Milk Protein Concentrate (MPC). During the Uruguay Round, all countries supposedly paid for concessions given by other members. Countries with import sensitive sectors were allowed to maintain a certain level of protection through Tariff Rate Quotas (TRQ), providing that access within the quota met five percent of the country's domestic consumption.

However, when the U.S. established TRQs for other dairy products, such as cheese, butter and nonfat dry milk, the technology to both produce and use concentrated milk proteins was in its infancy. Thus, the U.S. created no significant tariffs or quotas for MPC. *As a result, six years after the implementation of the GATT agreement, U.S. imports of MPC have risen more than 600 percent, while other nations are jealously guarding their markets against any milk protein products coming in.*

Costs and Benefits of Limiting Milk Protein Concentrate and Casein Imports

It has already been mentioned that dairy program costs are increased considerably as a result of increased imports of milk protein concentrates (MPC) and casein and caseinates. This is because unrestricted imports of concentrated milk protein products increase sales of domestically-produced nonfat dry milk to the CCC under the dairy price support program by displacing commercial sales in domestic markets.

Appendix 15 illustrates the maximum amount of U.S. nonfat dry milk potentially displaced by MPC products during 2000.

Our analysis seeks to quantify the cost of increased milk protein imports by analyzing the impact of restricting such imports. Appendices 16 and 17 provide an analysis of the impact of limiting imports of MPC and casein, assuming extension of the dairy price support program. Appendix 16 provides an overview of the dairy situation on a calendar year basis through 2008, assuming that imports of these concentrated milk protein products do not increase above their projected levels during calendar year 2001. Appendix 17 compares this scenario with the previous analysis of extending the dairy price support program, but without enacting any supplemental payments. This allows analysis of the separate impact of limiting milk protein imports. The analysis includes an estimate of the amount of domestically produced nonfat dry milk actually displaced by imports. It is assumed that displacement is larger for the imported products with lower protein content and less so for the more concentrated products, which possess more specialized functional properties in food processing and other applications.

The key results of this analysis are the following:

1. Limiting MPC and casein imports to their calendar year 2001 levels would reduce government costs by $874 million over the 2002-2008 period.

2. Limiting MPC and casein imports to their calendar year 2001 levels would increase dairy producer income by $694 million over the 2002-2008 period.

3. An overall benefit-cost ratio of limiting MPC and casein imports to their calendar year 2001 levels cannot be determined because neither dairy farmers nor the government bears any economic costs as a result. The combined benefits in the form of lower government costs and increased producer income add up to $1.6 billion over the seven-year period.

Congress should enact legislation to prevent the circumvention of Dairy Tariff Rate Quotas at a cost savings of nearly $900 million to the U.S. taxpayer.

You may have questions about our response to Milk Protein Concentrate and how it may be impacted by our World Trade Organization commitments. Raising U.S. tariffs can be consistent with WTO commitments. Under special circumstances, these actions do not necessarily breach U.S. WTO obligations. Currently, there are at least four cases (Egypt, Chile, Philippines, Brazil) in which countries have raised their tariffs above their bound rates without a U.S. government challenge.

Congress could request the self-initiation, by the Administration, of one of our trade remedy laws. Congress could also mandate that the U.S. Trade Representative renegotiate MPC tariffs. A third avenue is for Congress to request an analysis of the current classification of milk protein products.

Assessments on Imports to Support Generic Dairy Promotion Programs in the U.S.

The dairy industry has a long history of developing the consumer market for dairy products. We currently assess U.S. dairy farmers a 15-cent per hundredweight checkoff on their milk marketings to assist in product promotion. However, increasing imports are supplying a larger share of the U.S. consumer market, with imports now supplying about 5% of the domestic market. If not offset by increased demand, this escalation of supply will lead to market instability. Given this dynamic, it is only fair that the cost of a national promotion program be shared fairly among importers and domestic producers. If dairy products from foreign suppliers are going to benefit from a domestic producer-funded promotion effort, they should also be subject to an equivalent assessment to help pay for the promotion program. This is an already established practice - beef, cotton and pork importers are assessed at the same rate as domestic producers.

An amendment to the National Dairy Promotion and Research Program is necessary to expand the consumer market for dairy products. Other successful national promotion programs, including seven of the 13 fully operational commodity promotion programs assess imports, including those for beef, cotton, pork, potatoes, and honey. With an amendment to assess dairy imports, dairy producers will be able to extend the reach of their marketing programs. Additional funds from an assessment on imports will provide the dairy industry with the means to market to a much wider consumer audience, and build demand at a time when the aggregate supply of dairy products continues to grow.

Such an amendment would simply expand an already existing industry self-help promotion program that operates at no cost to the federal government. It would provide the dairy industry the ability to achieve together that which would not be possible alone: establishing a means to ensure that foreign dairy producers help pay for their fair share of further developing the U.S. consumer market. We estimate that an additional $12 million annually will help fund new promotion efforts through the application of the checkoff on imported dairy products. Advertising works - the dairy industry knows that smart, strategic promotions will encourage people to buy dairy products more often. Promotion programs are a proven means of increasing market share for agricultural commodities. In 2000, U.S. dairy production was valued at over $21 billion, a substantial market that could be even greater if more promotion funds are made available. Extensive efforts are underway to stabilize the dairy industry, and this amendment will further enhance the scope of a highly successful promotion program.

An amendment to the current dairy promotion program to assess dairy imports is an opportunity for Congress to help an industry create increased economic activity and job opportunities, with no expenditure of tax dollars.

Export Programs

The Dairy Export Incentive Program (DEIP) helps exporters of U.S. dairy products develop new markets and compete in markets where U.S. products are otherwise not competitive because of the presence of subsidized products from other countries. As mentioned earlier, the implementation of the GATT trade agreement has had ramifications for the DEIP. The agreement imposes limits on both the quantity and amount of DEIP bonuses by the United States. The annual U.S. DEIP limits are 21,097 metric tons of butterfat; 68,201 metric tons of nonfat dry milk; 3,030 metric tons of cheese; and 34 metric tons of other dairy products. These numbers are frozen at the current levels until a new round of WTO talks reaches fruition. **DEIP should be reauthorized at the maximum levels permitted within our export subsidy reduction commitments made during the Uruguay Round Agreement.**

The Market Access Program (MAP), uses funds from the USDA's Commodity Credit Corporation (CCC) to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities such as consumer promotions, market research, technical assistance, and trade servicing for U.S. agricultural products. MAP

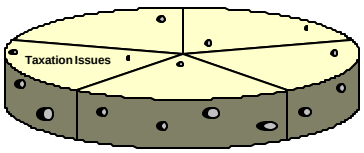
has seen its funding decline over the years in real terms as well as in absolute terms. The program was originally funded up to $200 million. Adjusted for inflation and exchange rate movements, the current funding of $90 million has dropped in real terms to about $45 million since 1986. **Based on past funding and inflation and currency exchange rates, Congress should authorize MAP in an amount no less than $200 million.**

Likewise, the Foreign Market Development Program (FMDP), which has as its main goal to develop, maintain, and expand long-term export markets for U.S. agricultural products. Using the same rationale as mentioned above for support of the MAP, **funding for FMDP should be increased to no less than $43 million annually.**

Food Aid Programs

Dairy producers support food aid programs. USDA currently provides food aid abroad through three channels: the Public Law 480 (P.L. 480) program, also known as the Food for Peace program; the Section 416(b) program; and the Food for Progress program. All are critical parts in market development for U.S. products as well as supplementing the food supply in needy countries. **Congress should extend all food assistance programs**.

In addition, dairy farmers would like to see the U.S. government provide overseas food aid through the Global Food for Education Initiative. We propose that this initiative mandate USDA to provide a volume rather than a dollar amount for continuous support of the initiative. We should move away from expanding food aid when domestic prices are low and move closer to a consistent program that provides for sustainable amount of dairy products to go to needy people around the globe. **Congress should fund this program in a manner that maintains a consistent level of resources**.



TAXATION ISSUES

Mr. Chairman, I'd like to include these final policy options because of their importance to the bottom line of all agricultural producers, including dairy farmers. Tax issues weigh heavily on farmers, just as they do on other taxpayers. We support efforts already underway this year in Congress to provide some forms of tax relief for dairy farmers. Although not strictly part of the Farm Bill, we need members of this Committee to work with their counterparts in the Ways and Means Committee to help pass the following measures:

Capital Gains Tax

Dairy farming, just like other farming and ranching operations, is a capital-intensive industry. Consequently, such operations require large investments in equipment, buildings, land, and livestock to produce milk, food, and fiber. When a farm asset is sold, farmers pay capital gains taxes on the amount the asset has increased in value. It is estimated that farmers and ranchers own their land for 30 years, during which time it may have significantly increased in value. When dairy farms or ranches are sold, the selling price is set to include the value of the taxes that have to be paid. This can be very restrictive to entry by other producers, or by young farmers getting started. **Capital gains taxes should be reduced to no more than 15% and assets indexed for inflation. The $500,000 homeowner capital gains exclusion should be expanded to include farmland and other agricultural capital assets.**

Farm and Ranch Risk Management Accounts (FARRM)

As we all know, farming is subject to much volatility. Agriculture is cyclical and is subjected to many factors beyond the farmer's control. Farmers face financial problems in poor years when the income just doesn't cover the expenses. FARRM Accounts are an important risk management tool which will provide tax deferment, so that farmers can save for years when prices are low. **FARRM Accounts should be enacted into law.**

Estate Taxes

Nearly all U.S. farms are owned by individuals, family partnerships, or family corporations. The estate tax have a negative effect on family owned business when the tax can be as high as 55%, forcing the survivors to sell of part of the farm, herd, and other assets just to pay the tax bill. The expense of figuring out how to shield estates from the tax bill can be expensive in itself, depleting much needed capital which farmers can better reinvest in the business. **The "Death Tax" should be eliminated and the "stepped up" basis (which adjusts the value of property for inflation at death) should be continued.**

Self-Employment Taxes

Dairy farmers and ranchers are nearly all self-employed. Self-employment taxes are collected on income earned by agricultural producers and others who are self-employed at a rate of 15.3%. Land rental for cash receipts and CRP payments have been wrongly interpreted by IRS to be subject to self-employment taxes. **Farmers and ranchers should be treated like all other taxpayers and not have to pay self-employment taxes on unearned income like cash rental of land and CRP.**

CONCLUSION

Mr. Chairman, I'd like to conclude by thanking you, Mr. Stenholm, and the other members of the committee for this opportunity to review the dairy producer community's recommendations for a comprehensive set of policies that provide the framework for the next Farm Bill. We have specifically addressed not only the dairy safety net, but also other programs integral to the economic health and well-being of dairy farmers across this country. Our approach has been to first develop the policies themselves, and then calculate the estimated funding required to implement the policies. Our end goal is not just defining a dollar amount, but the creation of sensible ideas that have some overall benefit – even if little or no funding is required.

We recognize that some of the items mentioned in our testimony, such as taxes, may fall under a different committee's jurisdiction. But we believe it is important to provide the House Agriculture Committee an opportunity to consider the holistic impact of everything you decide, relative to agriculture, as you consider the future of Farm Bill policy.

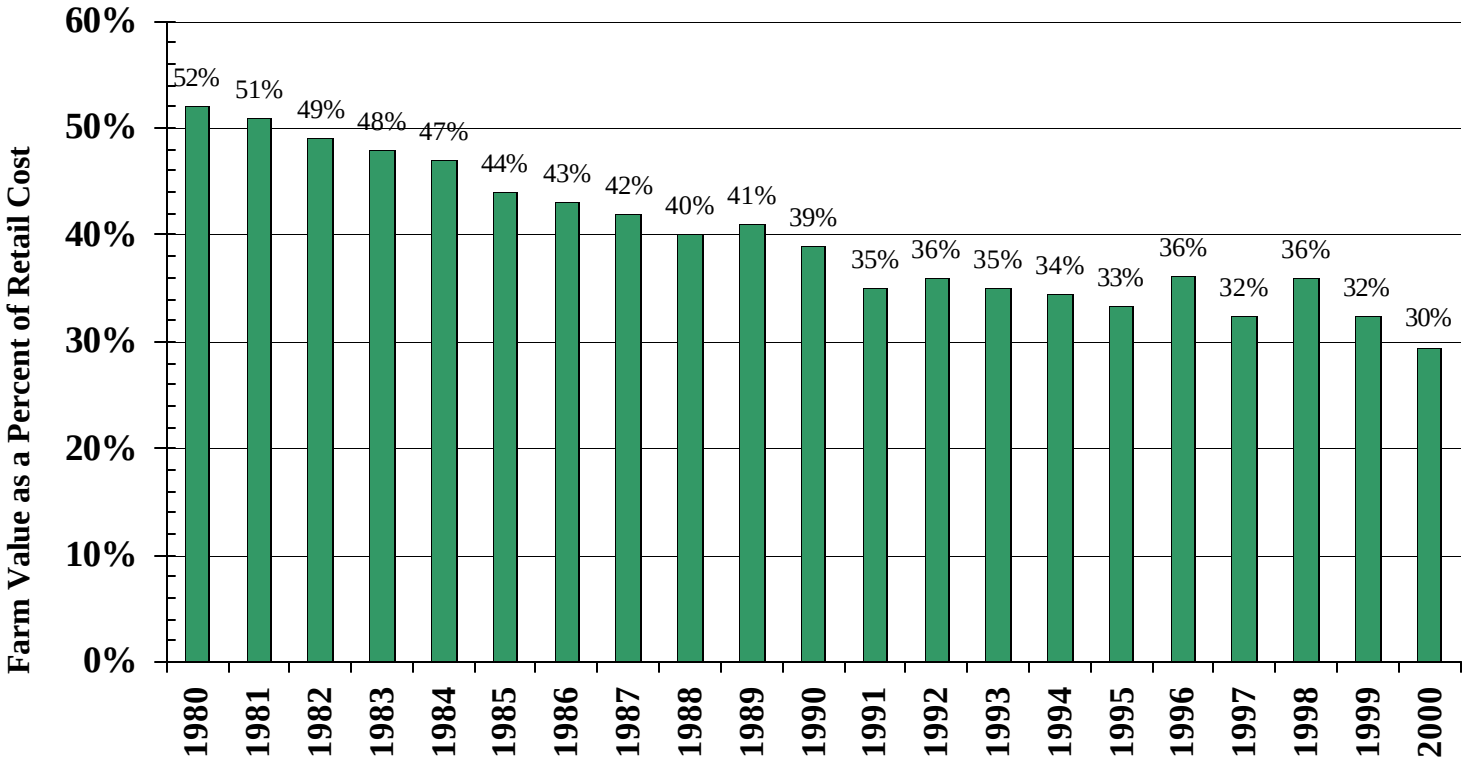
We believe that we have offered you the comprehensive dairy policy framework I mentioned at the start of this testimony. **The recommendations we have made do not negatively impact any other agricultural commodity; they do not adversely impact the processing segment of our industry by advocating excessive market intervention; and they do not increase consumer prices**.

Since we do not propose any increase in the price support level nor in any CCC product support prices, consumer prices would be unchanged by extending the price support program. The Class III and Class IV supplemental payments would likewise not increase market prices. Although it is often claimed that terminating the price support program would result in lower consumer prices, economic analysis of farm-to-retail price transmission in the dairy industry has consistently shown that while milk price increases are passed to the retail level quickly, and with certainty, milk price reductions are not necessarily passed on. Given this situation, it is not at all clear that overall consumer expenditures on milk and dairy products would decline upon termination of the dairy price support program.

To illustrate this point, the following table (Table 2) depicts the fact that while the dairy farmer's share of consumer expenditures on dairy products was 52% in 1980, it represented just under 30% in 2000. This graphic clearly demonstrates that the price paid to the dairy farmer for his or her milk is an ever-shrinking percentage of the price paid by consumers for dairy products.

Table 2

CHANGES IN DAIRY FARMERS' SHARE OF CONSUMER EXPENDITURES ON DAIRY PRODUCTS, 1980-2000



In conclusion, I hope you can understand why we chose to use the visual metaphor of the cheese wheel to highlight our priorities; you simply don't have a complete, round wheel if a key piece is missing.

And I think the same holds true for much of rural America with respect to dairy farmers. As we lose our dairy farm infrastructure, rural and even suburban communities begin to lose key pieces of what makes them unique. Dairy farmers and their families are often important members of their community, through involvement in church groups, school boards, fraternal organizations, and other civic and faith-based associations. We have to be mindful that the heritage and culture of rural America is also contingent, to a certain degree, on the steps we take (or don't take) to affect the economic health of the dairy sector and other agricultural endeavors.

But more importantly, beyond the often dry, arcane policy initiatives we discuss in this process, it's important to remember the human dimension of these policies, and their impact on dairy producers, their families, and their communities.

Thank you for your attention.

APPENDIX 1

DAIRY SITUATION 2000-2008, WITH DAIRY PROGRAM RECOMMENDED BY NATIONAL MILK PRODUCERS FEDERATION

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	167.7	168.9	171.5	174.3	177.7	180.8	183.5	186.3	189.0	180.5
Cow numbers	'000 head	9,210	9,177	9,104	8,930	8,906	8,863	8,804	8,750	8,697	8,865
Production per cow	lb./cow/yr.	18,204	18,400	18,842	19,515	19,959	20,403	20,847	21,291	21,736	20,370
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$14.43	$15.88	$15.76	$15.67	$15.58	$15.49	$15.40	$15.32	$15.23	$15.49
Class II	$/cwt.	$12.53	$13.98	$13.86	$13.77	$13.68	$13.59	$13.50	$13.42	$13.33	$13.59
Class III	$/cwt.	$9.74	$11.40	$10.38	$10.26	$10.09	$9.92	$9.75	$9.52	$9.50	$9.92
Class IV	$/cwt.	$11.83	$13.28	$13.16	$13.07	$12.98	$12.89	$12.80	$12.72	$12.63	$12.89
All-Milk, at average test	$/cwt.	**$12.34**	**$13.91**	**$13.35**	**$13.20**	**$13.03**	**$12.86**	**$12.69**	**$12.49**	**$12.40**	**$12.86**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.72	$0.81	$0.99	$1.15	$1.32	$1.50	$1.52	$1.14
Class IV	$/cwt.	$0.00	$0.00	$0.03	$0.03	$0.04	$0.05	$0.06	$0.06	$0.07	$0.05
Wholesale Product Prices:											
Butter	$/lb.	$1.14	$1.45	$1.43	$1.41	$1.39	$1.36	$1.34	$1.32	$1.30	$1.37
Nonfat Dry Milk	$/lb.	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01
Cheese		$1.16	$1.30	$1.20	$1.19	$1.17	$1.15	$1.14	$1.11	$1.11	$1.15
Net Government Outlays:											Sums
CCC Purchases	mil. $	$598	$509	$481	$527	$567	$599	$623	$642	$643	$4,081
DEIP Bonus Payments	mil. $	$12	$12	$11	$11	$11	$11	$11	$11	$11	$77
Supplementation payments:											
Class III	mil. $	$0.0	$0.0	$506	$591	$741	$893	$1,048	$1,226	$1,277	$6,281
Class IV	mil. $	$0	$0	$4	$5	$7	$8	$9	$11	$12	$56
Total Net Outlays	mil. $	**$610**	**$522**	**$1,001**	**$1,134**	**$1,325**	**$1,512**	**$1,692**	**$1,889**	**$1,943**	**$10,496**
Dairy Producer Income:	mil. $	**$20,525**	**$23,314**	**$23,240**	**$23,445**	**$23,760**	**$24,013**	**$24,216**	**$24,392**	**$24,618**	**$167,683**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	142	161	181	197	211	220	227	230	230	214
Casein and Caseinates	mil. lb.	239	256	272	286	297	305	311	314	314	300
Nonfat Dry Milk Displaced	mil. lb.	**436**	**482**	**531**	**571**	**604**	**628**	**644**	**652**	**652**	**612**

APPENDIX 2

DAIRY SITUATION 2000-2008, WITH TERMINATION OF PRICE SUPPORT PROGRAM AND WITHOUT SUPPLEMENTAL PAYMENTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	167.7	168.9	170.0	172.0	175.1	178.3	181.2	183.9	186.7	178.2
Cow numbers	'000 head	9,210	9,177	9,022	8,812	8,775	8,737	8,692	8,637	8,591	8,752
Production per cow	lb./cow/yr.	18,204	18,400	18,842	19,515	19,959	20,403	20,847	21,291	21,736	20,370
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$14.43	$15.88	$13.97	$14.17	$14.28	$14.28	$14.29	$14.29	$14.30	$14.23
Class II	$/cwt.	$12.53	$13.98	$12.07	$12.27	$12.38	$12.38	$12.39	$12.39	$12.40	$12.33
Class III	$/cwt.	$9.74	$11.40	$10.54	$10.42	$10.61	$10.74	$10.75	$10.75	$10.76	$10.65
Class IV	$/cwt.	$11.83	$13.28	$11.37	$11.57	$11.68	$11.68	$11.69	$11.69	$11.70	$11.63
All-Milk, at average test	$/cwt.	**$12.34**	**$13.91**	**$12.48**	**$12.53**	**$12.68**	**$12.73**	**$12.70**	**$12.67**	**$12.65**	**$12.63**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$1.14	$1.45	$1.44	$1.42	$1.41	$1.39	$1.37	$1.35	$1.33	$1.39
Nonfat Dry Milk	$/lb.	$1.01	$1.01	$0.80	$0.83	$0.85	$0.86	$0.87	$0.88	$0.89	$0.85
Cheese		$1.16	$1.30	$1.21	$1.20	$1.21	$1.22	$1.22	$1.22	$1.22	$1.22
Net Government Outlays:											Sums
CCC Purchases	mil. $	$598	$509	$0	$0	$0	$0	$0	$0	$0	$0
DEIP Bonus Payments	mil. $	$12	$12	$8	$7	$6	$5	$5	$5	$5	$43
Supplementation payments:											
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$610**	**$522**	**$8**	**$7**	**$6**	**$5**	**$5**	**$5**	**$5**	**$43**
Dairy Producer Income:	mil. $	**$20,525**	**$23,314**	**$21,062**	**$21,406**	**$22,064**	**$22,548**	**$22,880**	**$23,183**	**$23,505**	**$156,648**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	142	161	165	157	143	122	95	63	26	110
Casein and Caseinates	mil. lb.	239	256	259	254	243	226	205	179	149	217
Nonfat Dry Milk Displaced	mil. lb.	**436**	**482**	**493**	**475**	**441**	**390**	**326**	**249**	**159**	**362**

APPENDIX 3

DAIRY SITUATION 2000-2008, IMPACT OF TERMINATING THE PRICE SUPPORT PROGRAM, WITHOUT SUPPLEMENTAL PAYMENTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	0.0	0.0	-1.3	-1.9	-2.2	-2.0	-1.8	-1.8	-1.7	-1.8
Cow numbers	'000 head	0	0	-68	-100	-109	-100	-84	-85	-77	-89
Production per cow	lb./cow/yr.	0	0	0	0	0	0	0	0	0	0
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$0.00	$0.00	-$1.80	-$1.51	-$1.32	-$1.23	-$1.15	-$1.06	-$0.97	-$1.29
Class II	$/cwt.	$0.00	$0.00	-$1.80	-$1.51	-$1.32	-$1.23	-$1.15	-$1.06	-$0.97	-$1.29
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.36	$0.67	$0.78	$0.90	$1.02	$0.53
Class IV	$/cwt.	$0.00	$0.00	-$1.80	-$1.51	-$1.32	-$1.23	-$1.15	-$1.06	-$0.97	-$1.29
All-Milk, at average test	$/cwt.	**$0.00**	**$0.00**	**-$0.94**	**-$0.75**	**-$0.43**	**-$0.22**	**-$0.11**	**$0.00**	**$0.11**	**-$0.33**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$0.00	$0.00	$0.01	$0.01	$0.02	$0.02	$0.02	$0.02	$0.02	$0.01
Nonfat Dry Milk	$/lb.	$0.00	$0.00	-$0.21	-$0.18	-$0.16	-$0.15	-$0.14	-$0.13	-$0.12	-$0.16
Cheese		$0.00	$0.00	$0.00	$0.00	$0.03	$0.06	$0.07	$0.08	$0.09	$0.05
Net Government Outlays:											Sums
CCC Purchases	mil. $	$0	$0	-$451	-$482	-$513	-$530	-$541	-$545	-$545	-$3,606
DEIP Bonus Payments	mil. $	$0	$0	-$3	-$5	-$5	-$6	-$6	-$5	-$5	-$35
Supplementation payments:											
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$0**	**$0**	**-$454**	**-$487**	**-$518**	**-$535**	**-$547**	**-$550**	**-$550**	**-$3,641**
Dairy Producer Income:	mil. $	**$0**	**$0**	**-$1,763**	**-$1,537**	**-$1,039**	**-$653**	**-$422**	**-$228**	**-$4**	**-$5,646**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	0	0	-15	-40	-68	-99	-132	-167	-205	-104
Casein and Caseinates	mil. lb.	0	0	-13	-32	-54	-79	-106	-134	-164	-83
Nonfat Dry Milk Displaced	mil. lb.	0	0	-38	-96	-163	-238	-318	-403	-494	-250

APPENDIX 4

DAIRY SITUATION 2000-2008, WITH EXTENSION OF THE PRICE SUPPORT PROGRAM, AT A REDUCED NONFAT DRY MILK SUPPORT PRICE

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	167.7	168.9	171.2	173.6	176.9	179.9	182.6	185.3	187.9	179.6
Cow numbers	'000 head	9,210	9,177	9,084	8,897	8,865	8,819	8,761	8,701	8,646	8,825
Production per cow	lb./cow/yr.	18,204	18,400	18,842	19,515	19,959	20,403	20,847	21,291	21,736	20,370
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$14.43	$15.88	$15.33	$15.25	$15.16	$15.09	$15.01	$14.94	$14.86	$15.09
Class II	$/cwt.	$12.53	$13.98	$13.43	$13.35	$13.26	$13.19	$13.11	$13.04	$12.96	$13.19
Class III	$/cwt.	$9.74	$11.40	$10.54	$10.42	$10.31	$10.19	$10.08	$9.97	$9.86	$10.20
Class IV	$/cwt.	$11.83	$13.28	$12.73	$12.65	$12.56	$12.49	$12.41	$12.34	$12.26	$12.49
All-Milk, at average test	$/cwt.	**$12.34**	**$13.91**	**$13.19**	**$13.07**	**$12.93**	**$12.81**	**$12.68**	**$12.56**	**$12.43**	**$12.81**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$1.14	$1.45	$1.43	$1.41	$1.39	$1.37	$1.35	$1.34	$1.32	$1.37
Nonfat Dry Milk	$/lb.	$1.01	$1.01	$0.96	$0.96	$0.96	$0.96	$0.96	$0.96	$0.96	$0.96
Cheese		$1.16	$1.30	$1.21	$1.20	$1.19	$1.17	$1.16	$1.15	$1.14	$1.17
Net Government Outlays:											Sums
CCC Purchases	mil. $	$598	$509	$438	$469	$496	$513	$525	$528	$529	$3,498
DEIP Bonus Payments	mil. $	$12	$12	$8	$7	$6	$5	$5	$5	$5	$41
Supplementation payments:											
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$610**	**$522**	**$446**	**$475**	**$502**	**$518**	**$530**	**$533**	**$533**	**$3,539**
Dairy Producer Income:	mil. $	**$20,525**	**$23,314**	**$22,409**	**$22,529**	**$22,727**	**$22,910**	**$23,022**	**$23,148**	**$23,248**	**$159,993**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	142	161	180	196	209	218	224	228	228	212
Casein and Caseinates	mil. lb.	239	256	271	285	296	304	309	312	312	298
Nonfat Dry Milk Displaced	mil. lb.	**436**	**482**	**528**	**568**	**600**	**622**	**638**	**646**	**646**	**607**

APPENDIX 5

DAIRY SITUATION 2000-2008, IMPACT OF REDUCING THE NONFAT DRY MILK SUPPORT PRICE, WITHOUT SUPPLEMENTAL PAYMENTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	0.0	0.0	-0.1	-0.3	-0.4	-0.4	-0.3	-0.4	-0.5	-0.3
Cow numbers	'000 head	0	0	-7	-15	-19	-18	-15	-21	-22	-17
Production per cow	lb./cow/yr.	0	0	0	0	0	0	0	0	0	0
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$0.00	$0.00	-$0.43	-$0.43	-$0.43	-$0.43	-$0.42	-$0.42	-$0.41	-$0.43
Class II	$/cwt.	$0.00	$0.00	-$0.43	-$0.43	-$0.43	-$0.43	-$0.42	-$0.42	-$0.41	-$0.43
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.06	$0.12	$0.12	$0.12	$0.12	$0.08
Class IV	$/cwt.	$0.00	$0.00	-$0.43	-$0.43	-$0.43	-$0.43	-$0.42	-$0.42	-$0.41	-$0.43
All-Milk, at average test	$/cwt.	**$0.00**	**$0.00**	**-$0.24**	**-$0.22**	**-$0.19**	**-$0.14**	**-$0.13**	**-$0.11**	**-$0.11**	**-$0.16**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.01	$0.00
Nonfat Dry Milk	$/lb.	$0.00	$0.00	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05
Cheese		$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Net Government Outlays:											Sums
CCC Purchases	mil. $	$0	$0	-$13	-$13	-$16	-$16	-$16	-$16	-$16	-$108
DEIP Bonus Payments	mil. $	$0	$0	-$3	-$5	-$5	-$6	-$6	-$6	-$6	-$36
Supplementation payments:		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$0**	**$0**	**-$16**	**-$18**	**-$21**	**-$22**	**-$22**	**-$22**	**-$22**	**-$144**
Dairy Producer Income:	mil. $	**$0**	**$0**	**-$416**	**-$413**	**-$377**	**-$291**	**-$280**	**-$263**	**-$260**	**-$2,301**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	0	0	-1	-2	-2	-3	-3	-3	-3	-2
Casein and Caseinates	mil. lb.	0	0	-1	-1	-1	-2	-2	-2	-2	-1
Nonfat Dry Milk Displaced	mil. lb.	0	0	-3	-3	-3	-6	-6	-6	-6	-5

APPENDIX 6

DAIRY SITUATION 2000-2008, WITH EXTENSION OF CURRENT PRICE SUPPORT PROGRAM, WITHOUT SUPPLEMENTAL PAYMENTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	167.7	168.9	171.3	173.9	177.3	180.3	183.0	185.7	188.4	180.0
Cow numbers	'000 head	9,210	9,177	9,090	8,912	8,884	8,837	8,776	8,722	8,668	8,841
Production per cow	lb./cow/yr.	18,204	18,400	18,842	19,515	19,959	20,403	20,847	21,291	21,736	20,370
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$14.43	$15.88	$15.77	$15.68	$15.60	$15.51	$15.43	$15.35	$15.27	$15.52
Class II	$/cwt.	$12.53	$13.98	$13.87	$13.78	$13.70	$13.61	$13.53	$13.45	$13.37	$13.62
Class III	$/cwt.	$9.74	$11.40	$10.54	$10.42	$10.25	$10.07	$9.96	$9.85	$9.74	$10.12
Class IV	$/cwt.	$11.83	$13.28	$13.17	$13.08	$13.00	$12.91	$12.83	$12.75	$12.67	$12.92
All-Milk, at average test	$/cwt.	**$12.34**	**$13.91**	**$13.42**	**$13.28**	**$13.11**	**$12.95**	**$12.81**	**$12.67**	**$12.54**	**$12.97**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$1.14	$1.45	$1.43	$1.41	$1.39	$1.37	$1.35	$1.33	$1.31	$1.37
Nonfat Dry Milk	$/lb.	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01	$1.01
Cheese		$1.16	$1.30	$1.21	$1.20	$1.18	$1.16	$1.15	$1.14	$1.13	$1.17
Net Government Outlays:											Sums
CCC Purchases	mil. $	$598	$509	$451	$482	$513	$530	$541	$545	$545	$3,606
DEIP Bonus Payments	mil. $	$12	$12	$11	$11	$11	$11	$11	$11	$11	$77
Supplementation payments:											
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$610**	**$522**	**$462**	**$493**	**$524**	**$541**	**$552**	**$556**	**$556**	**$3,683**
Dairy Producer Income:	mil. $	**$20,525**	**$23,314**	**$22,826**	**$22,942**	**$23,104**	**$23,201**	**$23,302**	**$23,411**	**$23,509**	**$162,294**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	142	161	181	197	211	220	227	230	230	214
Casein and Caseinates	mil. lb.	239	256	272	286	297	305	311	314	314	300
Nonfat Dry Milk Displaced	mil. lb.	**436**	**482**	**531**	**571**	**604**	**628**	**644**	**652**	**652**	**612**

APPENDIX 7

DAIRY SITUATION 2000-2008, IMPACT OF PROVIDING FOR SUPPLEMENTAL PAYMENTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	0.0	0.0	0.3	0.3	0.4	0.5	0.6	0.6	0.6	0.5
Cow numbers	'000 head	0	0	14	18	22	26	27	28	30	23
Production per cow	lb./cow/yr.	0	0	0	0	0	0	0	0	0	0
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$0.00	$0.00	-$0.01	-$0.01	-$0.02	-$0.02	-$0.03	-$0.03	-$0.04	-$0.02
Class II	$/cwt.	$0.00	$0.00	-$0.01	-$0.01	-$0.02	-$0.02	-$0.03	-$0.03	-$0.04	-$0.02
Class III	$/cwt.	$0.00	$0.00	-$0.16	-$0.16	-$0.16	-$0.16	-$0.21	-$0.33	-$0.24	-$0.20
Class IV	$/cwt.	$0.00	$0.00	-$0.01	-$0.01	-$0.02	-$0.02	-$0.03	-$0.03	-$0.04	-$0.02
All-Milk, at average test	$/cwt.	**$0.00**	**$0.00**	**-$0.08**	**-$0.08**	**-$0.08**	**-$0.09**	**-$0.12**	**-$0.18**	**-$0.14**	**-$0.11**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.72	$0.81	$0.99	$1.15	$1.32	$1.50	$1.52	$1.14
Class IV	$/cwt.	$0.00	$0.00	$0.03	$0.03	$0.04	$0.05	$0.06	$0.06	$0.07	$0.05
Wholesale Product Prices:											
Butter	$/lb.	$0.00	$0.00	$0.00	$0.00	$0.00	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01
Nonfat Dry Milk	$/lb.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Cheese		$0.00	$0.00	-$0.01	-$0.01	-$0.01	-$0.01	-$0.02	-$0.03	-$0.02	-$0.01
Net Government Outlays:											Sums
CCC Purchases	mil. $	$0	$0	$30	$45	$54	$69	$82	$97	$98	$475
DEIP Bonus Payments	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Supplementation payments:											
Class III	mil. $	$0	$0	$506	$591	$741	$893	$1,048	$1,226	$1,277	$6,281
Class IV	mil. $	$0	$0	$4	$5	$7	$8	$9	$11	$12	$56
Total Net Outlays	mil. $	**$0**	**$0**	**$539**	**$641**	**$802**	**$971**	**$1,140**	**$1,333**	**$1,387**	**$6,812**
Dairy Producer Income:	mil. $	**$0**	**$0**	**$414**	**$503**	**$656**	**$812**	**$914**	**$981**	**$1,109**	**$5,389**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	0	0	0	0	0	0	0	0	0	0
Casein and Caseinates	mil. lb.	0	0	0	0	0	0	0	0	0	0
Nonfat Dry Milk Displaced	mil. lb.	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Appendix 8: Animal Health

National Voluntary Johne's Management, Testing, Research and Indemnity Program For Dairy Cattle

Proposed Plan

Background

Over 20% of all dairy herds may be infected with an animal pathogen (*Mycobacterium paratuberculosis*) that causes Johne's disease, a chronic infectious animal disease of the intestinal tract in livestock. Johne's disease causes losses in milk production and an eventual wasting away of the animal. If not detected and eliminated, the disease may spread throughout the herd. This animal disease, for which there is no cure, is projected to cost U.S. dairy producers in excess of $200 million annually.

The USDA National Animal Health Monitoring System (NAHMS) *Dairy '96 Health and Health Management Survey* found that lower milk production accounted for 85% of the economic impact of Johne's disease among dairy herds with greater than 10% clinical signs. Of the 31,745 dairy cows from the 967 herds surveyed, approximately 3.6% of the cows and 21.6% of the herds tested positive for Johne's disease. More recent testing of approximately 190,000 bovine serum samples, conducted in five different laboratories using the same ELISA test, produced an overall ELISA positive prevalence rate of 9.3%. Of those sera that were found to be positive by the ELISA test, 34% were found to be fecal culture positive.

Primary Goals and Benefits

The primary goal is to encourage dairy herd owners to be practically free of Johne's disease in 7 years. This program is designed to provide important testing and indemnity incentives to encourage dairy producers to voluntarily begin testing for Johne's disease and to remove infected and exposed animals from their dairy herds. The incentives provided will encourage producers to conduct necessary herd risk assessments and utilize best management practices to develop appropriate Johne's Herd Management Plans (JHMP) to prevent further introduction and spread of the disease.

The program is designed to encourage more testing between buyers and sellers, thereby helping to overcome the stigma that has always been associated with Johne's disease. This, in turn, will greatly assist the U.S. cattle industry in controlling the spread of this costly and insidious disease, and improve the competitive position of the U.S. with regard to exports of milk and meat products.

Primary Objectives

The primary objectives are to provide economic incentives for dairy producers to develop appropriate biosecurity management plans based on a Johne's herd risk

assessment, begin testing their herds to determine the degree of *Mycobacterium paratuberculosis* (Johne's disease) infection, and eliminate infected and exposed cattle.

For those herds initially determined not to be positive, encourage rapid movement to Level 3 of the *U.S. Voluntary Johne's Disease Herd Status Program for Cattle.* Level 3 represents a 98% mathematical probability that the herd is free from Johne's disease.

Timeframe, Estimated Cost

It is recommended that this voluntary program be authorized beginning October 1, 2001 for 7 years or until the end of the authorized time of the upcoming 2002 Farm Bill. The total cost of the program over 7 years is estimated to be $1.3 billion, or approximately $191 million per year.

Confidentiality

There has long been a stigma associated with having Johne's disease in cattle herds. Therefore, the National Johne's Working Group has recommended that all Federal, State, and accredited veterinarians involved in administering Johne's control programs be encouraged to utilize a coding system to maintain the confidentiality of the herd status of all participating producers. This recommendation is consistent with the need to maintain the confidentiality of the details contained in the required individual producer Johne's Herd Management Plan (JHMP), as well as the herd classification status, unless the producer desires to have the herd status made public.

Cattle Removed and Estimated Indemnity and Program Costs

Approximately 333,566 Johne's infected and exposed milk cows may be removed over a seven-year period (approximately 3.6% of the total national cowherd, based on 1999 cow numbers). Assuming an indemnity payment of $1550 per animal ($1100 for replacement plus $450 for salvage value), the total indemnity cost would be approximately $517 million.

Proposed Protocol

All producers who choose to voluntarily enter the Dairy Johne's Indemnity Program, must first request a qualified accredited veterinarian to conduct a Johne's herd risk assessment under the direction of a USDA approved State Johne's Epidemiologist (SJE).

The participating producer agrees to pay for the initial herd risk assessment and development of an approved Johne's Herd Management Plan (JHMP). The producer also agrees to randomly test 30 animals, 3 years of age and older utilizing a serologic test (ELISA), or best available technology, approved by SJE. The full cost of testing ($10 per ELISA test) will be reimbursed to the producer.

Currently, the ELISA test is the most efficient and cost effective test available. There are other tests (e.g., culture methods or PCR culture methods) which may become more commercially available. As these tests become available, their use should be

encouraged under this program. The cost figures included in this proposal are for ELISA tests and fecal culture confirmation.

Negative Herd Testing Scenario: If all initial 30 tests are negative, the producer qualifies for Level 1 under the *U.S. Voluntary Johne's Disease Herd Status Program for Cattle* (hereinafter referred to as the Status Program). At this point, the producer must agree to additional testing in order to advance to Level 3 of the Status Program following either the standard or advanced prescribed protocols under contract with USDA. The full cost of testing to advance to Level 3 is reimbursed to the producer. At Level 3, the participating producer will have achieved a 98% mathematical probability that his or her herd is free of Johne's disease. If, at any time in the course of advancing from Level 1 to Level 3, a positive ELISA test is confirmed by fecal culture, the herd will be classified as positive. This will require the producer to proceed to test according to the protocol stipulated under the Positive Herd Testing Scenario.

Positive Herd Testing Scenario: If one or more of the initial 30 tests are positive and confirmed positive by fecal culture or other officially approved test, the producer fails to initially qualify for Level 1 of the Status Program. The participating producer may then contract with USDA to continue ELISA testing 2nd lactation or higher milk cows at least 3 years of age following the recommended sampling numbers provided in Herd Subset Sampling under the Status Program or other sampling program approved by the SJE. The SJE shall eliminate all clinically infected and ELISA test positive animals that may have been exposed to clinically infected or confirmed positive Johne's diseased animals in the herd. Animals determined to be clinically infected or ELISA test positive by the SJE will be eligible for indemnity payment following proof, by an accredited veterinarian, that the animal has been humanely slaughtered. Alternatively, the animal may be purchased directly by USDA for Johne's research purposes. The goal is to eliminate test positive and Johne's exposed animals from potentially infected herds, and to qualify the testing herd for Level 1 of the Status Program. If the producer qualifies for Level 1 at any time during the seven-year program, the producer moves into the Negative Herd Testing Scenario described above to advance to Level 3 of the Status Program.

With the approval of the SJE, the participating producer may initially qualify for the Status Program by achieving an equivalent status to Level 1 through an approved State Johne's Testing Program.

If herds have been previously vaccinated to prevent and control the spread of Johne's disease, the initial status of the herd is assumed to be positive. Any animal within such a herd may be qualified for indemnification by the SJE, provided the animal is confirmed positive by fecal culture.

If the herd is determined to be significantly infected, the SJE may authorize total depopulation of the herd.

Testing Reimbursement, Identification, Disposal and Animal Indemnification

USDA will reimburse the producer the total cost of testing under this program, except when the producer requests a fecal culture test to confirm any test positive animal deemed more valuable than the approved indemnity rate. In this situation, the producer will bear half of the cost for the fecal culture confirmation test.

Animals determined positive by any official test approved by the SJE must be J-punched in the left ear for identification under this program and may be humanely slaughtered on the farm under the direction of an accredited veterinarian and removed from the herd for rendering. Animals not euthanized on the farm may be sent to a USDA approved slaughtering plant, humanely slaughtered under the direction of the Veterinarian-in-Charge and then rendered. In the event neither of the above options is viable, USDA may choose to purchase the test positive animals directly from the producer to be utilized in Johne's disease research.

All animals in the participating herd must be officially identified as part of an approved JHMP.

New additions to a participating program herd must reside on the farm for six months prior to becoming eligible for indemnity.

Once under contract with the SJE, dairy herd replacements must originate from dairy herds that qualify for Level 1 of the Status Program or have an approved and updated JHMP. The JHMP must be updated annually under the direction of a certified SJE.

Research, Laboratory, Implementation and Administrative Support

The program will require administrative and infrastructure support at the Federal level to be implemented as follows over 7 years:

USDA Biosecurity Training	$1.0 M x 3 years = 3.0 M
USDA Database Support	$1.0 M x 7 years = 7.0 M
USDA/NVSL Support	$1.0 M x 7 years = 7.0 M
USDA Johne's Research	$1.0 M x 7 years = 7.0 M
Farm Epidemiology Pilot Study	$0.5 M x 3 years = 1.5 M
USDA/VS Audit Support for States	$0.5 M x 7 years = 3.5 M
	Total = 29.0 M

Test Cost Projections for Initial Herd Status Qualification

Assume approximately 9,156,000 milk cows were in the national dairy herd in 1999, comprising 83,025 dairy herds with an average herd size of 110 milking cows at least 3 years of age in at least the 2nd lactation. Assume 30 cows at least 3 years of age need to be randomly ELISA tested with follow-up fecal culture confirmation to initially determine the Johne's herd status (either negative or positive). The total cost associated with this initial round of testing is $35,331,300. (83,025 herds x 30 cows/herd = 2,490,750 cows to be ELISA tested x $10/test = $24,907,500. The $10 cost per ELISA

test is assumed to cover both the cost of the test kit and sample collection. Assume that approximately 9.3% of the ELISA screened animals will be positive, hence approximately 231,640 animals will need to be confirmed positive by fecal culture x $45/test (includes the cost of sample collection and shipping) = $10,423,800. Thus, the cost is approximately $24,907,500 + $10,423,800 = $35,331,300.

By utilizing the fecal culture test to confirm the ELISA screened positive animals in the initial round of testing, a greater degree of confidence is obtained to determine the initial herd status under this program.

The indemnification cost associated with removing the positive animals in this initial round of program status testing is approximately $122,074,900. (Approximately 34% of 231,640 ELISA positive animals are expected to be fecal culture positive. Therefore, 78,758 fecal culture positive animals x $1550/animal = $122,074,900.)

Costs for Negative Herds to Reach Status Level 3 (Assume 70% of herds initially determined negative)

To reach Status Level 2: Approximately 70% of 83,025 herds (83,025 x 0.70 = 58,118) are assumed to be Johne's negative. Therefore, 58,118 herds x 110 milk cows/herd = 6,392,980 animals to be ELISA tested to Status Level 2 x $10/ELISA = $63,929,800.

Assume 7.5% of 6,392,980 ELISA tested animals will test positive. Therefore, 479,473 animals are expected to test ELISA positive and will need to be confirmed by fecal culture at a cost of $21,576,285 (479,473 ELISA positive animals x $45/fecal culture = $21,576,285.) Assume that these animals determined ELISA positive will confirm negative by fecal culture. Therefore, no animals will be removed for indemnity purposes from the herds initially assumed to be negative.

To reach Status Level 3: Approximately 6,392,980 animals will have to be tested by fecal culture x $45/test = $287,684,100.

Testing and Indemnification Cost Projections for ELISA Tested Herds Initially Determined Positive (Assume 30% positive herds)

Approximately 30% of 83,025 herds are assumed to be positive = 24,908 positive herds x 110 mature animals/herd = 2,739,880 total animals to be ELISA tested under a protocol approved by the SJE. Assuming that each positive herd tests each mature cow in the herd by an ELISA test, then the cost for this annual ELISA testing over 7 years is approximately $191,791,600 (2,739,880 cows x $10/cow = $27,398,800/year x 7 years.)

Based on recent epidemiology of Johne's disease in random herds studied, assume that approximately 9.3% of the animals ELISA tested will be positive. Therefore, 254,808 animals would test ELISA positive (2,739,880 x .093 = 254,808). If all of these animals qualified for indemnification by the SJE, the cost is $394,952,400 (254,808 animals x $1550/cow = $394,952,400).

Assume that these animals originate from infected herds based on the initial fecal culture herd confirmation and the animals may have been exposed to one or more clinically infected animals. While some animals might be removed that may not confirm as positive by fecal culture, eliminating these potentially exposed animals, the requirement for an annually updated JHMP, biosecurity plans, best management practices, and ELISA testing will ultimately reduce the degree of herd infection.

Based on the $1550 indemnification for each ELISA positive animal, some producers may choose to have the animal confirmed by fecal culture testing or other approved test, particularly if the animal is deemed to be more valuable than the indemnification amount. Assuming that approximately 30% of the animals testing ELISA positive would be selected for fecal culture confirmation, the cost is $1,719,945 (254,808 ELISA positive animals x 0.30 = 76,442 animals x $22.50/fecal culture test (1/2 the cost of testing) = 1,719,945).

Summary of Testing, Indemnification, Research, Laboratory, Implementation and Administration Projected Costs Over 7 Years

Initial Herd Qualification Status Testing	$ 35,331,300
Indemnity for Initial Fecal Culture Positives	$ 122,074,900
Negative Herd Status Level 2 ELISA	$ 63,929,800
Negative Herd Level 2 Fecal Culture	$ 21,576,285
Negative Herd Level 3 Fecal Culture	$ 287,684,100
Positive Herds ELISA Testing	$ 191,791,600
Positive Herds Fecal Culture Testing	$ 1,719,945
Positive Herds Indemnification Cost	$ 394,952,400
Total Testing and Indemnification	$1,119,060,330
Research, Laboratory, Administration	$ 29,000,000
Estimated APHIS Overhead (17%)	$ 195,170,256
Total Program Cost Estimate over 7 years	**$1,343,230,586**
	($191,890,084 per year)

Appendix 9: Animal Health

Consolidated New National Animal Health Research and Laboratory Facilities for USDA

Issue: There is a significant need to upgrade the National Animal Disease Center (NADC), National Veterinary Services Laboratory (NVSL) and Center for Veterinary Biologics (CVB) in Ames, Iowa.

Background: NADC was built in the early 1960's. NVSL was constructed in the late 1970's. Today, these laboratory facilities are in a state of major deterioration and obsolescence. Every critical infrastructure system such as ventilation, electrical, sewage treatment, biocontainment, incineration, heating and cooling is antiquated and failing. In some cases, the original suppliers of equipment being used are no longer in business.

To further protect and strengthen our animal food producing capability and protect the well-being of the U.S. public, a world class national animal health research and diagnostic center is urgently required. The U.S. must be prepared to deal with emerging new foreign and domestic animal diseases that threaten both human and animal health, including the ability to quickly diagnose, isolate and protect our nation's livestock population from significant new emerging animal diseases as they occur around the world. Foreign threats include the emergence of bovine spongiform encephalopathy (mad cow disease) in Europe, the spread of foot-and-mouth disease (FMD) in the United Kingdom and elsewhere in Europe, South America, Africa and Asia, and Blue Tongue in Southern Europe and the Mediterranean region. Domestically, we must be prepared to quickly diagnose and administer programs with other nations that protect the U.S. against the introduction of animal diseases such as Screw Worm and Rift Valley Fever. We must also be able to efficiently and effectively implement animal health programs domestically to eradicate diseases such as Johne's disease and Blue Tongue, thus reducing the economic impact upon our producers and enhancing their ability to remain competitive in the export of livestock and livestock byproducts.

The ability to export domestically produced livestock and animal byproducts depends upon our ability to meet international laboratory accreditation standards for safety, performance and quality assurance. This ability is greatly jeopardized under current antiquated laboratory conditions at our national animal health laboratory facilities. For example, the U.S. dairy industry wants to control the spread of Johne's disease in our dairy herds. A credible scientifically based program depends on the ability of ARS to conduct and coordinate the necessary basic research to understand and characterize the molecular identity and epidemiology of the disease from which appropriate diagnostics, vaccines and management practices can be developed to implement appropriate controls. NVSL must also be involved to conduct the necessary

collaborative diagnostic methods, development studies, and implement uniform and effective detection methodology in conjunction with all the State and private diagnostic laboratories. NVSL's involvement is critical to provide the testing validation necessary to deliver reliable test results to producers and veterinarians. Such a coordinated and effective Johne's disease response program is greatly hindered without adequate and updated laboratory facilities and equipment.

International accreditation of U.S. animal disease research, diagnostic testing, disease surveillance, technology transfer, training, regulatory and laboratory services, licensing, inspecting and monitoring compliance of the biologics industry are all critical national laboratory functions that are now at great risk. Other countries, including Canada, Australia and Germany, that compete with the U.S to supply animal products in the world market have, or will soon have, major new national animal health facilities. All animal and livestock industry groups, including National Milk Producers Federation, are urging the U.S. Congress to appropriate the necessary funds to immediately correct the intolerable conditions at our national animal health laboratories.

Recommended Program:

1. Consolidate the laboratory facilities for NADC, NVSL and CVB.
2. Establish an internationally recognized state-of-the-art animal health and disease eradication center that is properly equipped and staffed.
3. Provide focus for leadership, training and collaboration with both the university system and the livestock industries in the U.S.
4. Enhance linkages between research, diagnostics, and regulatory functions.
5. Approve adequate funding to expedite correction of the most critical laboratory needs immediately and approve an aggressive plan for construction and completion of the recommended USDA Master Plan by the end of 2005.

Timeframe for Implementation:

Construction for USDA recommended Master Plan completed by December 2005.

Expected Cost:

The current estimate for completion of the USDA Master Plan is approximately $439 Million. This does not include any provision for providing updated equipment.

Appendix 10: Animal Health

USDA Bovine Tuberculosis Emergency Eradication Program

Issue: The USDA/APHIS Veterinary Services must be provided with adequate line-item budget resources over the next 2 years to implement emergency bovine TB surveillance, traceback, herd and laboratory testing necessary to eradicated this disease from the U.S. without having to request emergency funding each year.

Background: Tuberculosis is a contagious disease capable of infecting both humans and animals. Bovine tuberculosis (*Mycobacterium bovis)* is zoonotic, meaning it can be transmitted from livestock to humans and other animals. It often goes unrecognized until it becomes chronic, once it has reached an advanced stage. Unless the disease is eradicated from the U.S., it will continue to spread, creating an adverse impact on animal and public health, increasing the cost of animal production and negatively impacting the U.S. trading status.

In October of 2000, APHIS/USDA developed a report entitled "*Comprehensive Strategic Plan for the Eradication of Bovine Tuberculosis*." This plan was developed to complete the eradication of bovine tuberculosis in domestic livestock in the U.S., including: cattle, bison, cervids, swine, dairy goats, and other hoofed animals such as llamas, alpacas and antelope (raised or maintained in captivity for the production of meat and other products for sport or exhibition). To implement the Strategic Plan, USDA prepared an emergency request of $97.3 million to be released from the Commodity Credit Corporation (CCC) over 3 years. The Office of Management and Budget (OMB) approved release of $44.0 million for FY 2001. This amount provided $25.7 million to depopulate dairies in El Paso County, Texas and $7.0 million to assist the State of Michigan in the testing of all cattle herds. The remainder, approximately $11.3 million, was earmarked by USDA/APHIS to enhance the National TB Eradication Program effort, including enhanced surveillance and trace-back from slaughter, and an expanded laboratory capability to support the program.

Given the uncertainties associated with requesting emergency funding each year to maintain the necessary TB surveillance, slaughter trace-back and laboratory support, additional line-item budget funding over the next 2 years would provide greater stability for the program. Direct budget support would also permit USDA to hire more permanent employees to augment the TB testing teams now engaged in Michigan.

Increased bovine TB surveillance is necessary to permit the U.S. to eradicate bovine TB by 2003 and prevent further regression of the program. As surveillance has decreased in recent years, inadequate numbers of samples have been taken to adequately monitor for the disease. As remaining pockets of infection become less numerous and isolated, a greater surveillance effort is needed to ensure that other areas remain free and

do not become reinfected. An additional resource requirement for testing was added when TB was recently discovered in wild deer in the northeastern section of the State of Michigan, jeopardizing the TB status of the State and infecting a number of cattle herds in the same region. By testing all cattle herds outside the infected area, Michigan and USDA are cooperating to prevent the spread of the disease and working to reestablish Michigan as a Split Status TB State. Likewise, USDA is cooperating with the State of Texas to eliminate nine dairies in El Paso County, Texas that have been infected with TB, thus eliminating a recurring problem which has caused Texas to remain a TB Split Status state.

Increased surveillance is also necessary to support international regionalization standards adopted under the World Trade Organization and to accommodate international regionalization requests. The States of Michigan and Texas have also requested additional resources to be able to zone out their currently infected areas.

Recommended Program:

1. Continue support for USDA/APHIS to enhance the Bovine Tuberculosis Eradication Program and achieve eradication by 2003.
2. Provide adequate line item funding for the Bovine Tuberculosis Eradication Program under the USDA/APHIS Veterinary Service Budget.

Timeframe for Implementation:

FY 2002 budget through FY 2003 budget.

Expected Cost:

The expected cost is $12.0 million per year over the next 2 budget cycles.

Appendix 11: Animal Health

National Animal Health Emergency Management System

Issue: The U.S. must be prepared to deal with potential major national animal health emergencies that would adversely impact food security, public health and the economy.

Background: The annual value of livestock produced in the U.S. exceeds $60 billion. The value of milk and dairy beef produced annually exceeds $25 billion. In 1998, the value of exports of live cattle, swine, beef and veal, pork and dairy products was approximately $3.9 billion. The U.S. must, therefore, be prepared to minimize the risks associated with the introduction or outbreak of any animal disease agent that could adversely impact the public and animal health or disrupt the supply of safe milk and meat for the nation's consumers.

A recent California study indicates that losses from a foot-and-mouth (FMD) introduction could range from $6 to $13 billion in one month. The study also predicted a $1 billion per day loss in trade sanctions for each day of delay in controlling the outbreak. Losses to FMD in Taiwan are expected to reach $25 billion. The cost to the Netherlands due to a recent outbreak of Classical Swine Fever was $3.3 billion. A foreign animal disease introduction into the U.S. could be expected to result in losses of billions of dollars to the livestock or poultry industry affected.

In the USDA budget of FY 2000, Congress provided a mere $0.6 million for Emergency Management Systems. In FY 2001, APHIS requested $5.24 million for Emergency Management Systems Programs to be able to respond effectively to any accidental or intentional disease introduction within the U.S. Congress provided $2.9 million as a budget line item for the first time under the APHIS/Veterinary Services Budget. APHIS budget projections for FY 2002 and beyond indicate a need for an additional $2.4 million for training, technology and completion of the Emergency Management Operations Center in Riverdale, Maryland.

In response to the urgent need to protect a multi-billion dollar investment in U.S. animal agriculture, animal commodity groups, represented by the Animal Agriculture Coalition, have worked cooperatively with the American Veterinary Medical Association, the U.S. Animal Health Association and the USDA to form a National Animal Health Emergency Management Steering Committee. The Steering Committee has developed a National Animal Health Emergency Management Strategic Plan that recommends the U.S. develop a world-class National Animal Health Emergency Management System by 2005.

Additional funding, program development, training and validation of performance capability is needed to implement an effective national cooperative program involving all stakeholder groups. Emergency programs development has not been given the priority at

USDA that is required to protect the nation's livestock industry. Over the past 10 years, there has been a 9 percent decrease in the Veterinary Services budget and a 5 percent decrease in the International Services Animal Health budget. Current funding levels are inadequate to address the increased threats of a foreign animal disease entering the U.S., either accidentally or intentionally. Monitoring, surveillance, import inspection and other program functions within APHIS/USDA have not been integrated into a comprehensive functional national animal health emergency management system.

Recommended Program:

1. The Secretary of Agriculture should work with Congress to secure a more adequate budget for APHIS and ARS foreign animal disease programs and facilities, including implementation of the ARS/APHIS Master Plan for updating and consolidating laboratory facilities in Ames, Iowa.
2. Implement a world class National Animal Health Emergency Management System (NAHEMS) by 2005. This effort must go forward without delay with emphasis on greater coordination and involvement of all related entities within USDA and FDA, including, but not limited to: ARS and FSIS, to assure maximum coordination of all partners, including the States and industry, in the implementation of NAHEMS.
3. Review and modernization of our foreign animal disease research and biocontainment facilities to include the urgent need for a biosafety level (BSL) 4 facility.
4. APHIS/VS develop transparent and sound risk assessment methodologies that are specific for diseases, species, and disease situations, and develop a standardization process for conducting risk assessments for regionalization. The methodologies and standardization process should be developed with USDA's Office of Risk Assessment and Cost Benefit Analysis. Before granting entry of products from potentially infected areas of the world, USDA should verify implementation of specific animal disease risk reduction strategies and product safety. The role of International Services in this verification process in the exporting country should be defined.

Timeframe for Implementation:

By the end of FY 2005.

Expected Cost:

The cost to effectuate the necessary increases in programming will require $10.0 million per year increase to APHIS/VS budget for Emergency Management Systems with no less than $2.0 million allocated to International Services.

Appendix 12: Animal Health

Dairy Quality Herd Management and Animal Care

Issue: It is crucial to provide necessary research, extension support and funding grants to enhance industry efforts to implement on-farm best management practices, so as to ensure proper animal health and care, food safety and environmental stewardship.

Background: Consumers of milk and dairy beef products are increasingly concerned about the safety of the food they purchase. They want to know what is in the food, where it was produced and under what conditions. Buyers are demanding more forms of product certification with regard to safety and animal care. Pressure is being placed upon retailers and fast food chains to not purchase meat unless animals have been raised by "humane" practices.

Producers are constantly being faced with increasing costs of production, lack of affordable labor, long hours and unprofitable operations. Increasing environmental and food safety regulations increase costs and may impede efficient production. Adverse weather conditions may hamper uniform production or purchase of quality feed. Animal disease problems can adversely impact production and raise costs. Export of products into world markets requires increased attention to validating the source herd health status for both food products and replacement heifers.

In the face of many production problems, unprecedented market demands require increasing attention be given to animal health, product safety and environmental stewardship. Producers need assistance in developing and implementing herd management plans that efficiently integrate best management practices to meet the growing demands of the marketplace. Research, extension and financial support is needed to assist industry efforts to develop and implement cost-effective Dairy Quality Management Programs that address the herd health and animal care needs on the farm. Programs must be producer friendly, provide the flexibility to accommodate the diversity present in today's production environment and capable of adopting technological improvements that will benefit producers and consumers.

Recommended Program:

1. Provide expanded research funding to Agricultural Research Service/USDA to develop demonstration farm research projects that will support the introduction of Dairy Quality Management Programs, integrating best management practices which are cost effective for producers.

2. Provide expanded extension support for the Cooperative State Research, Education and Extension Service/USDA to develop and fund grant proposals

to universities and industry that will develop the education, training and risk-assessment expertise required to implement such dairy quality management programs on the farm.

Timeframe for Implementation:

FY 2002 budget cycle through the FY 2005 federal budget.

Expected Cost:

The cost is estimated to approximate $2.0 million per year, to be equally divided between ARS and CSREES.

Appendix 13: Environment

EQIP Program Funding

Background:

Producers are unable to recover from the marketplace any investments they make in natural resource conservation. Unlike other industries that pass the cost of compliance along to their consumers, producers must incur the costs of implementing environmental improvements. Consequently, we believe it is critical that producers receive both financial and technical assistance as incentives to making investments in environmental beset management practices. Everyone in the community benefits from these efforts.

Producers are under increased expectations to make environmental investments both voluntarily and as a result of regulatory requirements. The Unified National Strategy for Animal Feeding Operations (AFOs) establishes a performance expectation for all AFOs to develop Comprehensive Nutrient Management Plans (CNMPs) by 2009. Also, EPA has recently released its Proposed CAFO Rule, which outlines proposed changes to both the permit regulations impacting Concentrated AFOs (CAFOs) and the corresponding permit effluent limitation guidelines.

While there are many initiatives to increase environmental requirements for producers, there is essentially only one Farm Bill Program to assist them in meeting these expectations. The primary federal program available to provide financial assistance to producers is USDA's Environmental Quality Incentives Program (EQIP).

Created by the 1996 Farm Bill, EQIP is a conservation program that provides cost sharing and technical assistance to producers for voluntary environmental improvements. Half of the EQIP funding is available for livestock producers, and the other half for crop producers. To be eligible for EQIP, producers must submit NRCS-approved conservation plans. State technical committees work with local work groups to identify priority areas within states and also significant statewide natural resource concerns that can receive EQIP monies, with the intent of maximizing environmental benefits per dollar expended. EQIP contracts last from five to ten years and can provide a maximum of 75% of the total cost of the project to the producer, not to exceed $10,000/year or $50,000/contract.

While EQIP is a valuable program for producers, it has certain limitations. A significant limitation of EQIP is the lack of adequate funding for this program. While the program was written to be funded at $200 million per year, it has been repeatedly under-funded by Congress. Even when fully funded, only a fraction of those facilities that apply for assistance receive approval. Another limitation is that larger facilities cannot use EQIP monies for the construction of manure storage facilities, when this is the often the most costly environmental investment that producers face. In addition, farms located outside of identified priority areas are not likely to be approved for EQIP contracts.

The successful implementation of ongoing federal environmental initiatives for agriculture is dependent upon providing producers with adequate financial and technical assistance to meet water quality goals.

Recommended Program:

- EQIP funding should be increased and restrictions removed so that more producers can participate in this program.
- USDA should produce a web-based resource to make producers aware of available funds to help offset environmental investments from a variety of state and federal sources, including EQIP.

Timeframe for Implementation:

Funding should be increased starting in FY 2002, and continue concurrent with the implementation of the 2002 Farm Bill.

Expected Cost:

USDA NRCS estimates that the total cost for all AFOs to implement CNMPs will be $13 billion.

EPA estimates that its proposed CAFO Rule could cost producers almost $1.25 billion annually (though we believe this number is most likely underestimated, due to some of the underlying assumptions).

For these reasons, we are asking for the EQIP Program to be funded at $1.25 Billion annually.

Appendix 14: Environment

Technical Assistance Funding and Environmental Research

Background:

In addition to the financial assistance needed to adopt certain environmental practices, producers also need to have reliable technical assistance available to them. The USDA Natural Resources Conservation Service (NRCS) is the primary means of technical conservation assistance for producers. NRCS faces both budget and staff limitations that limit the number of producers that can receive technical assistance.

The Unified National Strategy for Animal Feeding Operations (AFOs) establishes a performance expectation for all Animal Feeding Operations (AFOs) to develop Comprehensive Nutrient Management Plans (CNMPs) by 2009. NRCS estimates that 272,000 AFOs will require technical assistance to develop CNMPs. NRCS currently has the capacity to do only 8,000-9,000 plans each year. It is imperative that NRCS have the resources necessary to assist producers.

In addition to resources available through NRCS, there is a need for more money for research in addition to coordination of existing research projects. Producers currently lack affordable alternatives to manage manure and wastewater. Industry guidance should be sought to determine research priorities.

Recommended Program:

- We support the continued role of USDA's Natural Resources Conservation Service in providing technical assistance in an advisory role to producers at a local level.
- NRCS funding should be increased in order to provide adequate technical assistance to producers.
- We encourage USDA to become more actively involved to serve as an advocate for producers as EPA continues to regulate agriculture.

Timeframe for Implementation:

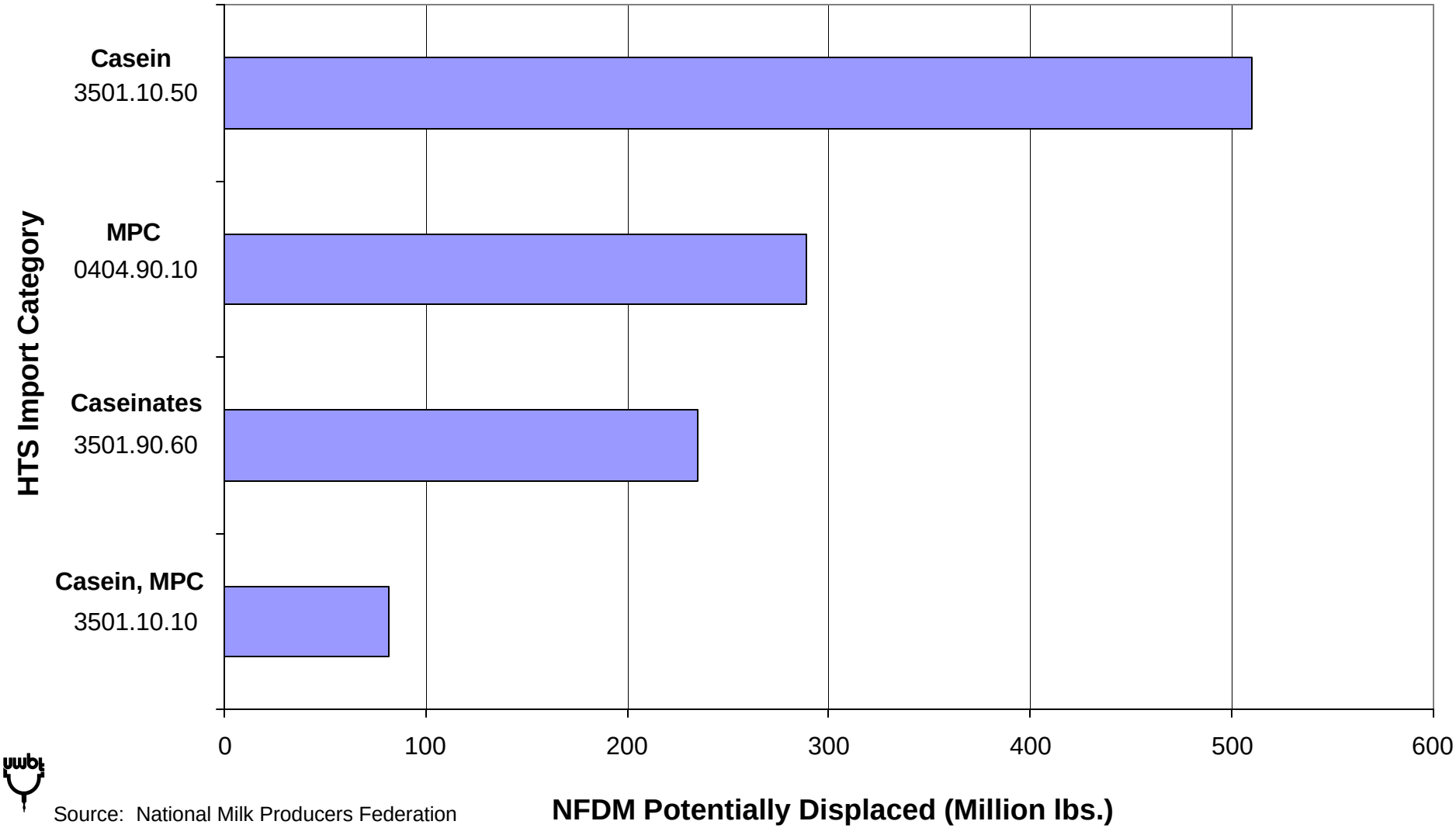
Beginning in Fiscal Year 2002, and running through the authorization period of the 2002 Farm bill.

Expected Cost:

Over the next 10 years, dairy producers will spend $5.1 billion to develop and fully implement CNMPs. The technical assistance alone needed to comply with this regulation accounts for $1.3 billion of this total over the ten year period. **Therefore, we urge Congress to provide $130 million annually, starting in FY 2002 and running through the authorization period of the 2002 Farm Bill, to assist dairy producers in developing the technical assistance relevant to CNMPs.**

Appendix 15

Potential Displacement of NFDM by MPC, Calendar Year 2000



Source: National Milk Producers Federation

APPENDIX 16

DAIRY SITUATION 2000-2008, WITH PRICE SUPPORT EXTENSION, NO SUPPLEMENTAL PAYMENTS, AND LIMITED MPC/CASEIN IMPORTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	167.7	168.9	171.3	173.9	177.4	180.4	183.1	185.8	188.5	180.1
Cow numbers	'000 head	9,210	9,177	9,092	8,914	8,888	8,841	8,782	8,728	8,674	8,846
Production per cow	lb./cow/yr.	18,204	18,400	18,842	19,515	19,959	20,403	20,847	21,291	21,736	20,370
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$14.43	$15.88	$15.81	$15.73	$15.68	$15.60	$15.56	$15.48	$15.40	$15.61
Class II	$/cwt.	$12.53	$13.98	$13.91	$13.83	$13.78	$13.70	$13.66	$13.58	$13.50	$13.71
Class III	$/cwt.	$9.74	$11.40	$10.54	$10.42	$10.25	$10.07	$9.96	$9.85	$9.74	$10.12
Class IV	$/cwt.	$11.83	$13.28	$13.21	$13.13	$13.08	$13.00	$12.96	$12.88	$12.80	$13.01
All-Milk, at average test	$/cwt.	**$12.34**	**$13.91**	**$13.45**	**$13.31**	**$13.16**	**$12.99**	**$12.88**	**$12.74**	**$12.61**	**$13.02**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$1.14	$1.45	$1.43	$1.41	$1.39	$1.37	$1.35	$1.33	$1.31	$1.37
Nonfat Dry Milk	$/lb.	$1.01	$1.01	$1.02	$1.02	$1.02	$1.02	$1.03	$1.03	$1.03	$1.02
Cheese		$1.16	$1.30	$1.21	$1.20	$1.18	$1.16	$1.15	$1.14	$1.13	$1.17
Net Government Outlays:											Sums
CCC Purchases	mil. $	$598	$509	$402	$393	$391	$384	$380	$375	$375	$2,700
DEIP Bonus Payments	mil. $	$12	$12	$15	$15	$16	$15	$16	$16	$16	$109
Supplementation payments:											
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$610**	**$522**	**$417**	**$408**	**$407**	**$400**	**$396**	**$391**	**$391**	**$2,809**
Dairy Producer Income:	mil. $	**$20,525**	**$23,314**	**$22,871**	**$22,988**	**$23,195**	**$23,293**	**$23,441**	**$23,551**	**$23,649**	**$162,988**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	142	161	161	161	161	161	161	161	161	161
Casein and Caseinates	mil. lb.	239	256	256	256	256	256	256	256	256	256
Nonfat Dry Milk Displaced	mil. lb.	**436**	**482**	**482**	**482**	**482**	**482**	**482**	**482**	**482**	**482**

APPENDIX 17

DAIRY SITUATION 2000-2008, IMPACT OF LIMITING MPC AND CASEIN IMPORTS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2002-08
U.S. milk production:											Averages
Milk production	bil. lb.	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Cow numbers	'000 head	0	0	2	2	4	4	6	6	6	4
Production per cow	lb./cow/yr.	0	0	0	0	0	0	0	0	0	0
Milk Prices, at 3.5% bf:											
Class I	$/cwt.	$0.00	$0.00	$0.04	$0.04	$0.09	$0.09	$0.13	$0.13	$0.13	$0.09
Class II	$/cwt.	$0.00	$0.00	$0.04	$0.04	$0.09	$0.09	$0.13	$0.13	$0.13	$0.09
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.04	$0.04	$0.09	$0.09	$0.13	$0.13	$0.13	$0.09
All-Milk, at average test	$/cwt.	**$0.00**	**$0.00**	**$0.02**	**$0.02**	**$0.05**	**$0.05**	**$0.07**	**$0.07**	**$0.07**	**$0.05**
Supplementation Payments:											
Class III	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Class IV	$/cwt.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Wholesale Product Prices:											
Butter	$/lb.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Nonfat Dry Milk	$/lb.	$0.00	$0.00	$0.00	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Cheese		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Net Government Outlays:											Sums
CCC Purchases	mil. $	$0	$0	-$49	-$89	-$121	-$146	-$162	-$170	-$170	-$905
DEIP Bonus Payments	mil. $	$0	$0	$4	$4	$4	$4	$5	$5	$5	$31
Supplementation payments:											
Class III	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Class IV	mil. $	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Net Outlays	mil. $	**$0**	**$0**	**-$45**	**-$85**	**-$117**	**-$141**	**-$157**	**-$165**	**-$165**	**-$874**
Dairy Producer Income:	mil. $	**$0**	**$0**	**$45**	**$46**	**$92**	**$92**	**$139**	**$140**	**$140**	**$694**
Milk Protein Imports:											Averages
Milk Protein Concentrate	mil. lb.	0	0	-20	-36	-50	-60	-66	-69	-69	-53
Casein and Caseinates	mil. lb.	0	0	-17	-30	-41	-50	-55	-58	-58	-44
Nonfat Dry Milk Displaced	mil. lb.	**0**	**0**	**-49**	**-89**	**-121**	**-146**	**-162**	**-170**	**-170**	**-129**